PART 3: THE SECOND EPOCH: LIBERAL IMPERIALISM AND DECOLONIZATION, 1846-1974

AN ACCOUNT OF THE PORTUGUESE AFRICAN EMPIRE, 1885-1975 *

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1. INTRODUCTION

From the independence of Brazil in 1822 down to the independence of the African colonies in 1975, successive Portuguese governments became engaged in maintaining, enlarging, developing and, ultimately, in defending an empire in Africa. The literature on the Portuguese African empire is largely concerned with discussing the economic and political motives behind imperial policy [1]. Thus, the evaluation of the costs and benefits of the empire for the metropolitan economy —or, for that matter, the colonial economies— has not received much attention. This paper attempts to provide some of the evidence necessary to conduct such an evaluation [2]. Alas, the available data is insufficient for a full evaluation of the costs and benefits of the Portuguese African empire throughout the period considered here and this exercise will be incomplete [3]. But for two periods, namely, from 1885-1914 and 1948-1975, there is enough statistical

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[1] See Hammond (1966 and 1969) and Clarence-Smith (1985) for two opposite thesis regarding the nature of Portuguese imperialism. See also Capela (1975), Papagano (1980) and Marques (1994). According to Valentim Alexandre (1979) and (1993), the expansion of the Portuguese African empire was due to the same kind of factors that facilitated the other European empires in Africa, namely, better transports, the development of medicine and of military techniques, as well as the need to increase the control of the territories. For an account of the military activities of the Portuguese in Africa, see Pélissier (1994), (1997a) and (1997b).

[2] Two exceptions may be noted, for the twentieth century, namely, Castro (1980) and Green (1969).

[3] Also for lack of data, I do not present an explicit model for the evaluation of the costs and benefits of the African empire.

information to suggest that the single largest effect of the colonial empire on the Portuguese economy may be detected through an analysis of the balance of payments of Portugal and her empire with the rest of the world. The contribution of colonial revenues in financing Portugal's balance on current account dwarfed any other effects the empire had upon the Portuguese economy.

At the beginning of the nineteenth century, Portugal was the largest slave trader on the Atlantic and the share expanded down to the late 1820's. Apart from wax, ivory and gold, little else was sold on world markets by the Portuguese colonies in the years that preceded the abolition of the Atlantic slave trade [4]. Revenues from slave trade also accounted for an overwhelming share of the colonial budgets [5]. Yet this trade was to be curtailed by the British sea power. The abolition of slave trade in Portuguese Africa was first settled in principle with the British government in 1810, when Portugal agreed not to trade in slaves outside its own empire. In January 1815, during the Vienna Congress, Portugal signed a treaty with Britain which included a provision for the abolition of slave trade from the Portuguese colonies of Africa to the north of Equator. In 1817, Britain obtained the right to inspect Portuguese ships and the Portuguese claims to territories and bases in Africa were recognised by the British government [6]. Nevertheless, it was only in December 1836 that Portugal unilaterally moved to abolish the slave trade from all of the Portuguese possessions (but not within the empire). Even so, the British government still insisted on the right to inspect the Portuguese ships [7].

The dominance of slavery in the African outbound trade was by no means specific to the Portuguese colonies [8]. Yet, the reconstitution of trade from other colonies was easier. The growth of commodity trade was accompanied by an important shift in the way that trade was managed, in particular by the British, namely, the shift from sail to steam shipping [9]. Portuguese traders had to adapt to British competition in the trade between Africa and Europe and failed. The comparison with Britain suggests that the difficulty for the Portuguese resided in their inability to develop steam

[4] See Liesegang (1986), Miller (1986) and Curto (1992) for Portuguese Africa's slave and commodity trades in this period. See also Richardson (1989).

[5] See Capela (1979, pp. 85-86).

[6] See Smith (1970, p. 80).

[7] See Capela (1979, pp. 202-24). For a review of the discussion of the abolition of the slave trade by Portugal, see Marques (1994) and Alexandre (1994).

[8] See Haight (1967, pp. 100-2), Inikori (1986) and Law (1995).

[9] See Lynn (1981) and (1989).

shipping and to cater for an industrial market that demanded such raw materials as palm oil and palm kernels [10]. In Africa, as well as at home, Portuguese traders faced strong competition from British industry and finance.

Given Portugal's military weakness in Europe, it was only through diplomacy that Portugal could keep and expand its African empire and for that an alliance with Britain was important, particularly when and where the interests of other colonial empires were at stake. The British government was not always keen to have direct administrative control and Portuguese administration with its African backup could useful. Thus when the Foreign Office in London looked into the Portuguese occupation of the Congo basin, it noted that «a bad tenant was better than an empty house, and it was better to let Portugal in at once than for Britain to wake one morning and find that France had occupied the disputed territory» [11].

Portugal attended the Berlin Conference, in 1884-1885, and secured administrative control over the north bank of the river Congo after assuring the other powers that it was committed to free trade in the area. This was a diplomatic achievement but very little flowed from it, by way of economic gains, not least in terms of fiscal revenue to cover the administrative costs involved. This was precisely what occurred after similar diplomatic victories that secured north Angola, in 1855, Bolama, then capital of Portuguese Guinea, in 1870, and the Delagoa Bay, in 1875. By 1889-1890, times were about to change and the Portuguese ambitions in Africa were restrained by other powers.

In 1890, the British government sent an ultimatum to Lisbon to stop Portuguese military expeditions aimed at securing the territories in south central Africa. The outcry that then emerged in Portugal has blurred the fact that the settlement of the borders of the Portuguese colonies in the following years was pretty favourable for Portugal. The colony of Mozambique was cut short of the lands bordering Lake Nyassa, but the important kingdom of Gaza in the south was included, in 1895. Angola was not allowed to stretch to the region of Barotze, in the south, but the Lunda, a large area comprising almost one fourth of its present day borders (and which was not claimed in 1887) was added to the colony also in 1895 [12].

[10] See Bowman (1987).

[11] Axelson (1967, p. 58).

[12] See, among others, Axelson (1967). See also Smith (1970), Caetano (1971) and Nowell (1982).

The actual map of 1895 may have been less favourable for Portuguese interests than Portugal's virtual map of 1887. But the territory left still proved to be of significant economic interest. When the frontiers were all but defined and Portugal's claims in Africa internationally secured, the government in Lisbon became free to switch its African policy from a relatively free trade and liberal phase into the new «colonial system» which aimed to maximise revenues from trade.

The rest of the article is structured as follows. Section 2 deals with the period from the Conference of Berlin, in 1885, when the Portuguese government became free to implement colonial policies that would lead to large earnings in foreign currency for the metropolis. This benign outcome was temporarily reversed during the 1920's. Then, new rules were implemented over the following decade which allowed Portugal to obtain mercantilist profits from its colonies once more. From the early 1960's, the colonies in the Portuguese economy decreased, while their negative weight in the metropolitan government budgets increased, due to the costly wars of independence. It was in this context of rising fiscal costs that the empire came to an end. Section 3 analyses the second phase of Portugal's African colonisation. A summary of the conclusions is given in section 4.

2. THE REVIVAL OF EMPIRE, 1885-1930

At the time of the Berlin Conference, in 1885, Portugal's African colonies had an entirely small weight in the Portuguese economy and their role was not increasing in any discernible way. For example colonial trade still represented a tiny proportion of Portugal's trade and there were no other significant economic relationships with the Empire. Portugal exported little capital and few emigrants to Africa. Furthermore, in the 1880's, the colonies were not a fiscal burden to central government. Their share in total expenditure was small and the colonial budget deficits look insignificant. Thus it seems hard to find any general and purely economic interest behind the attempts to secure Portugal's political claims in Africa. Yet the interest that successive governments had shown in the Angola coast compared to the Guinea coast suggests that there were some economic priorities behind African policies. For example, the statistics for the 1870's show that Angola, with a population of half a million and exports of one billion réis, seemed set to became a more profitable colony than Guinea, with a population of five thousand and exports of less than 300 million reis [13].

But in 1892 a protective tariff was introduced which led to a significant increase in trade between Portugal and Africa. That increase was particularly marked for Portugal's exports to Africa and for African exports to third countries, shipped through Portugal as re-exports. In fact, by 1905-14, when the weight of African imports in Portugal's total imports was not much different from what it had been half a century before, African markets already accounted for 15 per cent of total Portuguese exports (see table 1). By then Portugal's Africa trade took a larger share than any other single country and Portugal ranked second to Britain in terms of the share of exports directed to non—European destinations (table 2). In the 1890's, the value of re-exports from Portugal was comparatively larger than it was for Great Britain and France (table 3).

The major effect flowing from the new tariff was that revenues in foreign currency derived from exports from the colonies were retained in Portugal because they passed through Lisbon and attracted just ten per cent of the duties they would have paid if they had been sold outside the new «colonial system». These revenues gradually assumed an important role in Portugal's balance of payments. In 1893, Barros Gomes, former minister of the colonies, told members of the Sociedade de Geografia de Lisboa about the «increasing importance, for the Portuguese economy, of the foreign currency coming from Angola» [14]. Given that emigrant remittances from Brazil, previously the major source of finance of the Portuguese balance of payments, suffered a severe contraction between 1888 and 1900, the change in the colonial tariff could not have come at a better time.

The major other facet of the economic relationships between Portugal and her colonies and for which there is data for a long period, is the share of expenditure by the metropolitan government on the colonies. Table 4 displays the average values for the share of colonial expenditure for the period after 1852, as well as the share of outlays on the military in total colonial expenditures. Distinctions between metropolitan and colonial accounts are not completely clear and a precise account of the financial cost of the colonies to the Portuguese government is hard to establish accurately. Such expenditures were not concentrated within a single ministry and they could be incorrectly registered. For example, it was a

[13] See Clarence-Smith (1985, p. 74).

[14] Quoted in Alexandre (1979, p.63). See a similar opinion expressed in 1899 by the then minister of the Navy and colonies, quoted in Lains (1995, p. 130).

TABLE 1

Portugal: trade with the colonies
(as % of total foreign trade)

	Imports		*Exports*	
	African Colonies	*Other Colonies*	*African Colonies*	*Other Colonies*
1840-49	0,5	–	1,0	–
1850-59	1,9	–	2,4	–
1860-69	2,5	–	3,1	–
1870-79	2,4	–	3,7	–
1880-89	2,0	–	2,9	–
1890-99	2,4	–	10,8	–
1900-09	2,9	–	15,3	–
1905-14	3,3	–	15,1	–
1920	3,8	–	14,1	–
1930-39	10,2	0,0	11,9	0,2
1940-49	13,2	0,0	19,5	0,6
1950-59	14,0	0,1	25,1	0,6
1960-69	14,1	0,2	24,1	0,3
1970-74	11,7	0,4	17,8	0,2

Note: Data for 1842, 1843, 1848, 1851, 1855, 1856, 1861, 1865-1914, 1920 and 1930-1974.

SOURCES: 1842-1914: Lains (1992, p. 127); 1920: Castro (1979, p. 229); 1930-1974: Ferreira (1994, tables 1-3) and (1996).

TABLE 2

European exports by main areas, 1913
(per cent)

	Europe	*N. America*	*S. America*	*Asia*	*Africa*	*Oceania*
Portugal	59,8	3,0	18,7	2,2	16,3	0,0
Denmark	97,6	1,4	0,4	0,3	0,2	0,1
Finland	98,0	0,0	0,1	0,0	2,0	0,0
Norway	80,8	8,5	4,3	1,9	1,4	3,0
Sweden	86,9	5,2	1,3	2,6	2,7	1,0
France	69,8	7,4	6,9	3,5	12,3	0,1
Italy	65,8	13,3	11,6	4,4	4,3	0,4
Spain	70,6	6,5	18,2	1,4	3,2	0,1
U.K.	35,2	11,6	12,6	24,5	7,4	8,6

SOURCE: Bairoch (1974, p. 573)

TABLE 3

The importance of reexports, 1861-1913

	Portugal	*U.K.*	*France*
1861-70	9,4%	17,2%	3,2%
1871-80	9,7%	15,5%	1,2%
1881-90	11,6%	15,9%	1,2%
1891-90	21,3%	13,6%	1,4%
1901-13	21,1%	13,9%	1,4%

SOURCES: Lains (1992, p. 186), Imlah (1958, p. 170) and Levy-Leboyer (1073, p. 86).
Note: reexports/(reexports + imports).

common practice to assign the funding of certain expenditures on Portugal to the colonies on the premise that colonies should bring benefits to the metropolis. Such sources of error were, however, minor.

Expenditures on the colonies were below 5% of annual total expenditures for most of the 120 years considered in table 4. When expenditures rose above that mark that was due to military operations that occurred in the early 1890's, during World War I and again during the wars of independence (1961-1974). On average for 1851-1914, Portugal's central government's expenditure on the colonies came to 3.1% and below the corresponding ratio of 6% for France [15]. Furthermore, colonial governments also raised their own taxes. The information regarding local budgets is scarce and refers to planned, not actual, revenues and expenditures and relates only to Angola (see table 5). Nevertheless we may conjecture that Angola's budgetary deficit added not more than one percentage point to Portugal's metropolitan expenditure, between 1853-1910 [16]. Even if the deficits of Guinea and Mozambique are taken into account, the share of total expenditure on the empire in the Portuguese budget most certainly fell below that of France over the period 1850-1910.

[15] See Crouzet and Dormois, this issue.

[16] This proportion is probably overestimated and it has been estimated that the total actual deficit for 1853-1907 was only 56 per cent of the deficit of the planned budgets. See Macedo (1910, pp. 33-35 and 52-54).

TABLE 4

Government expenditure
(billion reis)

	Total	Colonies Total	Investment	Military	Inv/Tot	Mil/Tot	Other/Tot	Colonies/ Total
1852-60	11,22	0,01	na	na	na	na	na	0,1%
1861-70	14,86	0,34	na	na	na	na	na	2,2%
1871-80	22,61	0,36	na	na	na	na	na	1,6%
1881-90	31,63	1,23	1,37	0,00	91,0%	0,0%	9,0%	3,7%
1891-900	44,74	2,56	1,56	0,51	58,1%	14,7%	27,3%	5,8%
1901-10	57,42	2,78	2,53	0,19	64,1%	5,1%	30,7%	4,8%
1911-20	147,1	11,5	1,9	8,6	32,9%	48,3%	18,7%	7,7%
1921-30	1399,5	62,5	51,5	1,5	61,4%	8,2%	30,4%	4,1%
1931-40	2591,0	29,4	3,5	0,4	10,2%	1,0%	88,8%	1,2%
1941-50	3790,5	186,7	111,8	45,7	27,7%	21,3%	51,0%	3,7%
1951-60	7747,3	498,2	181,5	256,0	28,7%	56,2%	15,0%	6,0%
1961-70	20682,1	5387,9	633,4	4621,5	12,5%	84,9%	2,6%	26,1%
1971-76	66854,6	10001,7	1442,1	9038,9	13,6%	85,1%	1,3%	18,0%

SOURCES: 1851-1914: Mata (1993, tables 10, 14 and 39); 1915-1980: Ferreira and Pedra (1988, Annex I).
Note: Total expenditure is taken from Mata (1993, table 39).

TABLE 5

Angola: colonial budget
(million reis)

	Revenue	Expend.	Deficits
1819	175,2	141,8	33,4
1822	152,1	183,4	−31,3
1824-25	164,3	179,6	−15,3
1829-32	148,5	143,3	5,2
1843	132,7	208,4	−75,7
1853-59	241,2	266,6	−25,4
1860-69	247,0	352,6	−105,6
1870-79	419,2	433,3	−14,2
1880-89	570,7	750,5	−179,8
1890-99	1295,3	1462,2	−166,9
1900-09	1842,5	2476,7	−634,1
1910-14	2797,4	3888,7	−1091,3

SOURCE: 1819-1910: Macedo (1910, pp. 45 and 47-48); 1911-1914 Pélissier (1997a, p. 228).

Although the increase in exports from Portugal to Africa was rapid, it was in the re-export trade of colonial produce to third countries that the true changes brought about by the 1892 tariff can be observed. This rapid increase of colonial re-exports had a large effect on Portugal's balance of payments and, ultimately, on her rate of industrial and economic growth. In 1891, the Portuguese government had faced a severe crisis in meeting payments to foreign holders of government bonds, due basically to the contraction in the value of emigrant remittances from Brazil. Following the abolition of slavery in 1888 and the Republican revolution, Brazil's currency depreciated heavily and Portuguese emigrants reduced their remittances sent home to Portugal, particularly during the years 1890-1894. The resulting shortage of gold and foreign currency led to a debt crisis. This crisis had wide political implications although its economic consequences were less serious than historians once believed [17].

The re-export trade from the African colonies through Portugal and on to northern Europe and the United States, increased considerably after 1892 because the colonial tariff of that year imposed strong preferential treatment for re-exports carried through Portugal. After 1892, Portuguese exports to the African colonies paid between 10% and 20% in tariff duties, foreign produce re-exported through Lisbon to the colonies paid 80%, and direct exports from foreign countries to the colonies paid the full tariff [18]. The reason why re-exports from Africa earned foreign currency for the Metropolis, was that Portugal paid the colonies in domestic currency, and retained the foreign currency received from their sale outside the empire. Furthermore, direct trade between Portugal and its African territories was carried on in domestic currency and consequently the Portuguese balance of trade with the African colonies has to be deducted from the balance of trade in foreign currency.

Table 6 includes my estimates of the revised values for average yearly re-exports from the African colonies, in comparison to Portugal's balance of trade valued in both domestic and foreign currencies [19]. Column (c)

[17] See Lains (1995). The debate around the crisis of 1891 has been misleading to the extent that the impressive role of colonial re-exports in balancing Portugal's external payments is largely neglected in the more recent literature. See, though, Cordeiro (1896, p. 400), Vieira (1905, p. 473), Salazar (1916, pp. 193-99) and Clarence-Smith (1985, pp. 86-87).

[18] See, for instance, Pautas vigentes [...] (1892). Differential duties had already been imposed in the 1830's, albeit less successfully and they were abandoned in the 1870's.

[19] For details regarding the correction of Portugal's foreign trade statistics see Lains (1992, Appendix B). Briefly, outward trade was undervalued, whereas inward trade was

TABLE 6

Portugal: balances of trade
(revised values, billion reis)

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
	Total trade			Trade with Africa			Colonical reexports			
	Exports	Imports	BoT (a) − (b)	Exports	Imports	BoT1 (d) − (e)	From Afr.	To Afr.	BoT2 (g) − (h)	BoT3 (c) − (f) + (i)
1855-1856	15.760	19.640	−3880	390	437	−47	1.145	932	212	−3621
1861	13.875	29.043	−15168	515	630	−115	916	1.299	−384	−15437
1865-1869	15.164	27.967	−12802	484	727	−243	1.614	1.431	182	−12377
1870-1874	23.132	28.091	−4959	758	760	−3	2.472	1.977	494	−4462
1875-1879	24.513	31.554	−7041	1.047	663	384	2.468	2.118	350	−7075
1880-1884	24.058	30.885	−6826	665	621	44	1.982	2.134	−152	−7022
1885-1889	32.344	35.139	−2795	1.009	697	312	3.288	2.417	872	−2235
1890-1894	37.316	34.570	2746	2.712	805	1907	8.819	3.396	5423	6262
1895-1899	55.360	39.146	16214	7.806	963	6843	14.995	3.879	11117	20488
1900-1904	53.712	54.876	−1164	8.187	1.486	6701	17.404	3.806	13598	5732
1905-1909	44.808	59.388	−14580	6.906	1.820	5086	16.243	4.297	11946	−7720
1910-1913	64.938	73.058	−8120	9.659	2.393	7267	25.490	5.804	19686	4299

SOURCE: Lains (1992, p. 184) and (1995, p.132).

shows that Portugal's total balance of trade converted into domestic currency, was in deficit throughout most of the 1865-1913 period; apart from the decade 1890-1899 when the mil-reis was undervalued in relation to its par value. Column (d) indicates that from the 1870's, Portugal's balance of trade with her African colonies was positive and the surplus reduced the total deficit. Since trade with the colonies was carried in domestic currency, such transactions should be excluded from the balance of trade measured in foreign currency. This balance is shown in table 6 (column e) and it is naturally less favourable for Portugal than the overall balance measured in domestic currency. What is most noteworthy is the sharp increase in receipts over outlays in 1895-1899, due to the depreciation of the currency, and the worsening thereafter, following the appreciation of the currency. Table 6 also shows the value of colonial re-exports (column f) and in column (g) the value of re-exports is added to the value of the balance of trade in foreign currency. From this last set of data, we conclude that for most of the period from 1890, Portugal's balance of trade in foreign currency was positive. Finally, table 7 shows that during the same period from the early 1890's, re-exports were earning considerably more in foreign currency for the Portuguese economy than emigrant remittances. Clarence-Smith concluded that re-exports covered less than half of the deficit between 1905 and 1915, and the rest was covered by emigrant remittances. But my revision of the official data gives a different picture, and suggests that either emigrant remittances were substantially lower, or that Portugal's balance of payments was largely positive [20].

Returns from the colonies to the Portuguese economy depended on their capacity to produce exportables. In 1901, the principal items exported from the empire were cocoa, wild rubber, coffee, oil seeds, fisheries and wax and, in 1913, sugar was added to this list (see table 8). These products were either produced in plantations run by Europeans using contract labour or they were produced by the Africans and brought to the coast to be

registered correctly. The reason is that the declared value of exports was converted into the Portuguese currency at the par exchange rate, even after 1891, when Portugal left the gold standard and the currency was below par for most of the period up to 1914. Imports were registered at the market exchange rates.

[20] See Clarence-Smith (1985, p. 87). There are no estimates for total remittances and the values in table 4 are only temptative. The most complete study of the effects of emigrant remittances on Portugal's balance of payments after 1891 is still Salazar (1916, chap. 7). See also Pereira (1981, pp. 39-44) and Lains (1995, p. 127). Mata (1987) provides an estimate for the balance of payments for 1891-1913, and for the earlier period (1865-1890) there is another estimate from Reis (1991). These two series are incomplete and incompatible with each other.

TABLE 7

Emigrant remittances and reexports
(billion reis)

	Remittances		Reexports	
	Recorded	Estimated		
	(a)	(b)	(c)	(d) = (b)/(c)
1878-79	2961	5922	695	8,521
1888-89	3796	7592	2201	3,449
1890-93	1078	2156	5614	0,384
1896-99	1965	3930	13182	0,298
1900-04	4225	8450	15563	0,543
1907-09	4126	8252	13721	0,601
1910-13	3558	7116	21445	0,332

SOURCE: Lains (1992, p. 178).

exported. The importance of produce such as rubber, wax and fish, decreased in the period 1901-1936 while the export of oil seeds, probably another peasant crop, increased. Plantation exports show an inverse trend, except for cocoa. In fact, the share of exports of sugar (mainly from Mozambique), coffee (mainly from S. Tomé and Angola), cotton and sisal (from Angola and Mozambique) and corn (from Angola) increased from 1901 to 1936.

Exports from Portuguese Africa doubled between 1901 and 1919 (in current pounds sterling), declined during World War I and stabilised thereafter, until 1929, to decline again until 1934, in which year the levels of the beginning of the century were re-established (see table 9) [21]. This pattern of export growth was shaped by the growth of international markets for tropical exports and the economy of the Portuguese colonies probably suffered as much as other economies that were also dependent on primary exports.

The commodities which the African colonies exported were commodities for which the domestic demand was probably very low. For

[21] Table 6 also depicts the value of trade for the Asian colonies (Portuguese India, Macau and Timor), which fall out of the scope of the present article. The relative importance of those colonies can be gauged by the data on that table. The value of trade from Portuguese India and Timor is relatively small, Macau was a transit port for China as well as Portuguese India for imports into India.

TABLE 8

Composition of colonical exports, 1901-1936

	Billion reis				Per cent			
	1901	1913	1927	1936	1901	1913	1927	1936
Cattle	13	93	2622	2659	0,1%	0,4%	0,4%	0,4%
Hides	69	222	7481	5694	0,6%	1,1%	1,1%	0,9%
Wax	511	660	14258	14230	4,2%	3,2%	2,1%	2,3%
Oil seeds	913	3081	183046	150274	7,4%	14,8%	27,5%	23,9%
Oils	34	99	11273	4893	0,3%	0,5%	1,7%	0,8%
Cotton	9	80	16639	33258	0,1%	0,4%	2,5%	5,3%
Sisal	0	17	14810	52405	0,0%	0,1%	2,2%	8,3%
Tobacco	0	11	833	890	0,0%	0,1%	0,1%	0,1%
Rubber	3326	2367	1395	293	27,1%	11,4%	0,2%	0,0%
Wood	44	62	1299	1549	0,4%	0,3%	0,2%	0,2%
Diamonds	0	0	38498	83338	0,0%	0,0%	5,8%	13,2%
Gold	0	0	4449	4802	0,0%	0,0%	0,7%	0,8%
Coal	0	0	389	546	0,0%	0,0%	0,1%	0,1%
Fisheries	736	769	32913	18382	6,0%	3,7%	4,9%	2,9%
Sugar	163	2331	87749	75934	1,3%	11,2%	13,2%	12,1%
Coffee	1122	1440	67917	59680	9,2%	6,9%	10,2%	9,5%
Cocoa	4180	7172	83987	23686	34,1%	34,4%	12,6%	3,8%
Corn	90	287	55341	57364	0,7%	1,4%	8,3%	9,1%
Salt	73	60	4041	2324	0,6%	0,3%	0,6%	0,4%
Other	974	2091	36937	37001	7,9%	10,0%	5,5%	5,9%
TOTAL	12257	20842	665877	629202	100,0%	100,0%	100,0%	100,0%

SOURCE: Salgado (1939: table 12b).
Note: All territories, except Nyasa Co. and Macau.

example, African populations consumed some negligible amounts of coffee, cocoa and cotton. Thus, the growth of exports was made possible by an elastic increase in the production and sale of exportables. For example, the collection of wild rubber and its transport to the coast, could be carried on with little European supervision [22]. Although the major concern of the Portuguese authorities was to make sure that such products were channelled through the ports under their supervision, and not diverted through the Congo from northern Angola and Zambese from northern Mozambique. That had happened earlier in the century with exports of slaves and ivory.

[22] See Duffy (1961, p. 158).

TABLE 9

Colonial Trade, 1901-1936
(000 pounds sterling)

	Exports									
	Guinea	*Cape Verde*	*S. Tome*	*Angola*	*Mozambique*	*India*	*Macau*	*Timor*	*TOTAL*	*Total Africa*
1901-10	109	62	1422	1116	662	144	1572	67	4991	3365
1911-20	304	53	1239	1188	1250	245	1643	90	6013	4034
1921-30	357	32	615	2029	2603	293	1518	144	7591	5636
1931-36	273	24	285	2148	1521	194	788	59	5292	4251
	Imports									
	Guinea	*Cape Verde*	*S. Tome*	*Angola*	*Mozambique*	*India*	*Macau*	*Timor*	*TOTAL*	*Total Africa*
1901-10	167	173	572	1266	1707	416	1845	59	6004	3868
1911-20	367	229	733	1149	2528	726	2231	79	8043	5007
1921-30	387	335	351	2229	3930	1121	2740	113	11206	7232
1931-36	233	222	165	1506	2973	1111	1840	59	8109	5098

SOURCE: Salgado (1939: tables 3 and 6).

Meanwhile, the definition of the borders in the 1890's fostered control over supplies of exportables from the Africans.

Yet, the definition and control of the borders or, for that matter, the definition of property rights within the colonies, were by no means sufficient to guarantee increases in the supply of exportables from the plantations. Labour was a scarce factor in Africa (probably less than capital but certainly more than land). After the abolition of slavery, the production of products for export such as coffee or cotton required measures to tie the population to the land. The control over African populations was of paramount importance for successful colonisation, not only because it helped to provide the necessary labour force for the plantations, but also because it allowed the collection of taxes.

Control over the African populations became harder after the abolition of slavery [23]. The first step towards the abolition of slavery was taken in

[23] Slavery was more difficult to abolish than slave trade also because it implied a compensation to the slave-owners. Yet, the Portuguese legislator, contrarily to the British, managed to avoid that expenditure to the government.

1856 in the district of Ambriz as a response to a dispute with Britain. In April 1858, Sá da Bandeira decreed that slavery would be abolished over a period of twenty years. He expected the number of slaves would decline and thus reduce the cost of indemnity to the Portuguese government. When that did not happen, the government formally ended slavery in February 1869, but obliged the ex-slaves to continue working for their ex-proprietors for ten years, as «libertos». Between 1874 and 1876 the «libertos» were freed and slavery was finally abolished in the Portuguese colonies, only a few years after slavery had been abolished on the rest of the Continent and a labour code was published, in 1878, which established some protective rights for native workers [24]. During the following decade, Portugal was more concerned with territorial claims than in securing fiscal revenues from the colonies to cover their administrative costs, either in the form of tariffs or in the form of the control of the labour force. Not until 1899 was a new labour code applied to all African natives in the form of a «moral and legal» obligation to work [25].

Thus, the 1892 tariff and the 1899 labour code formed landmarks for the new colonial regime that Portugal imposed on her African colonies. The measures were surely what other European powers had expected Portugal to implement when they resisted Portuguese claims during negotiations over territory and borders in the 1880's. Perhaps the tariff and labour code, which brought important benefits for Portuguese colonisation were delayed simply to strengthen the bargaining position of the country in the scramble for territory.

The increased interest of government in Africa emerged in several ways. For example, the position of *governador geral* of Angola and Mozambique obtained a new status that attracted men who managed to impose a tighter administrative control over the territories. Yet soon the new governadores gerais demanded more autonomy. Meanwhile, the fiscal cost of the colonies increased from the early 1890's, particularly for Angola. Sound public finance preoccupied the press and the parliament, upon which governments depended. Yet, it was not until World War I that the share of the colonial in metropolitan government expenditures increased to 12%, but shortly thereafter that share fell again to a level close to what it had been in the nineteenth century (see table 4 above). Even so, the budgets of the colonies became increasingly unbalanced, particularly for Angola, largely

[24] See Alexandre (1979, pp. 155-57) and Duffy (1961, p. 151).

[25] That obligation was further regulated by the labour codes of 1926 and 1928, and in 1930 it was limited to public works. See Duffy (1961, pp. 318-21).

because the military expenditures increased more than three times between 1883-1887 and 1903-1907 and in 1907 they peaked at 51% of total expenditures for that year [26].

The reason for the increasing burden on the metropolis was that Portugal was heavily engaged in wars in Angola, Mozambique and Guinea during the last three decades before world War I. It was not until the mid 1920's, that the Portuguese colonies on the continent of Africa were pacified and controlled by the Portuguese army and its tax collectors.

The generally favourable position of African colonies in Portugal's balance of payments and their relatively low burden on the metropolitan budget, gradually came to an end during the republican regime (1910-1926). Four factors contributed to this outcome. Firstly, the wars against native power, in Guinea, Angola and Mozambique increased in intensity down to 1926 when the last important conflict was fought in the colonies. Secondly, the autonomy granted to the governadores gerais fostered colonial investment, a policy that was backed by Lisbon because it was believed that the colonies needed social overhead capital in order to make them profitable and less war prone. Thirdly, the shock caused by the War to international markets was particularly severe for the kind of primary products exported by Portugal's colonies. Finally, the way Portugal financed the war caused high inflation and disturbances to the public finances, in both Portugal and its colonies.

The 1926 coup d'état that ended the republican regime was followed by a period of financial reorganisation, led by the Estado Novo. In the colonies, reforms were more difficult to implement because the effects of the 1929 depression were severe. Portugal's balance of trade with the African colonies went into substantial deficit, first in 1913 and thereafter for most of the 1920's. The years from 1929 to 1931 were the three highest deficits since the beginning of the century. Exports did not recover, but imports were cut almost in half between the peak year of 1929 and 1934. By 1936, the Estado Novo could proudly present a small surplus for commodity trade with African colonies. At the same time, colonial finances moved into balance and remained there for the rest of the period down to 1950 [27].

[26] In 1900-10, the accumulated deficit for Angola's governo geral (7,100 contos), surpassed the accumulated deficit of the previous five decades, from 1852 to 1899 (5,500 contos). See Macedo (1910, pp. 54-61).

[27] See Duffy (1961, p. 331).

3. THE CONSOLIDATION AND DEMISE OF EMPIRE, 1930-1975

The 1930 Acto Colonial marked a new era in the relationship between Portugal and her colonies. Basically this act (included in the 1933 Constitution) aimed to establish a new colonial system, where trade and payments between Portugal and her colonies would be in balance. Furthermore, the autonomy of the colonial administrations was constrained in order that the whole system could be ruled from Lisbon. The strategy was not designed to produce revenues in the colonies for the benefit of Portugal, but rather a financial equilibrium within the empire. Through the medium of exchange controls imposed in 1931, the new system channelled foreign currency from colonial exports into the metropolitan economy and thereby provided a major source of the means required to finance Portugal's deficits on the current account of the balance of payments. Furthermore, the share of the colonies in Portugal's trade increased substantially, as the export sector in Portugal responded to opportunities opened by protected markets in Africa and the colonies developed raw materials which the Portuguese industry demanded, such as textile fibres and industrial oils.

The functioning of the colonial system born in 1930 differed from the system imposed by the tariff regime of 1892. Under the former regime, Portugal secured the foreign currency earned by African exports by controlling re-exports through Lisbon. After 1930, the control was exercised over monetary flows.

Estimated values for the empire's trade for 1927-1931 presented in table 10 show that the colonies were running slight deficits, both in terms of total trade (1061 contos of exports against 1143 contos of imports) and for trade with foreign countries alone (812 contos against 987). Table 11 depicts a similar situation for the years 1932-1936 (the deficit should be reduced by applying a factor of 30% to the value of exports), and for 1947-1951 [28]. The share taken by foreign countries in exports from Portugal's African colonies increased from 1901 to 1927-31, stabilised in the period to 1932-1936 and then increased again down to 1947-1951. The decline in the value of exports from 1927-1931 to 1932-1936 was more important for sales to foreign countries and the share of colonial

[28] There is no equivalent revision for Portuguese foreign trade statistics for the period after 1914 as the one presented on table 6 above for the 1842-1914 period. Ribeiro Salgado (1936, p. 91) hints that exports from Portugal were undervalued by 50% and exports from the colonies by 30%.

imports from third countries contracted from 72% to 62%. Yet, the decline in total imports was sharper than the decline in exports and the colonies probably run a surplus in the early 1930's (if account is taken for the under-valuation of exports). Such an outcome flowed from the protectionist measures imposed by the Colonial Act of 1930.

TABLE 10

Trade within the Empire, 1927-1931
(contos)

	Official values			
Exports to	*Portugal*	*Colonies*	*3rd Countries*	*Total*
Portugal	–	191,2	2198,6	2389,8
Colonies	103,6	–	987,3	1090,9
3rd Countries	812,9	624,6	–	1437,5
Total	916,5	815,8	3185,9	4918,2
	Revised values			
Exports to	*Portugal*	*Colonies*	*3rd Countries*	*Total*
Portugal	–	248,6	2198,6	2447,2
Colonies	155,4	–	987,3	1142,7
3rd Countries	1219,4	812,0	–	2031,4
Total	1374,8	1060,6	3185,9	5621,3

SOURCE: Based on Salgado (1936: table 1).
Note: The revised values were estimated according to the source by adding 50% to the value of Portuguese exports and 30% to the value of colonial exports.
Exports from countries (imports) were not revised.

TABLE 11

Portuguese Africa Trade, 1901, 1913, 1927-36 and 1947-51
(contos)

Exports to	*Guinea*	*C. Verde*	*S. Tomé*	*Angola*	*Mozambique*	*Total*
1901 Portugal	74	303	4.480	4.208	146	9.211
Other colonies	2	49	17	219	129	416
Foreign countries	273	21	—	101	1.612	2.007
Total	**349**	**373**	**4.497**	**4.528**	**1.887**	**11.634**

Exports to		*Guinea*	*C. Verde*	*S. Tomé*	*Angola*	*Mozambique*	*Total*
1913	Portugal	275	282	7.236	4.512	342	12.647
	Other colonies	1	21	152	229	1.265	1.668
	Foreign countries	1.209	11	10	841	3.713	5.784
	Total	**1.485**	**314**	**7.398**	**5.582**	**5.320**	**20.099**
1927-31	Portugal	21.390	2.251	59.325	102.965	42.688	228.619
	Other colonies	134	206	467	9.275	5.277	15.359
	Foreign countries	17.586	663	765	130.695	197.593	347.302
	Total	**39.110**	**3.120**	**60.557**	**242.935**	**245.558**	**591.280**
1932-36	Portugal	19.285	2.111	30.597	125.189	46.847	224.029
	Other colonies	271	140	230	4.027	4.972	9.640
	Foreign countries	10.608	449	32	136.964	114.112	262.165
	Total	**30.164**	**2.700**	**30.859**	**266.180**	**165.931**	**495.834**
1947-51	Portugal	107.553	7.622	19.763	461.392	385.599	981.929
	Other	27.018	207.655	182.051	1.462.827	603.520	2.483.071
	Total	**134.571**	**215.277**	**201.814**	**1.924.219**	**989.119**	**3.465.000**
Imports from		*Guinea*	*C. Verde*	*S. Tomé*	*Angola*	*Mozambique*	*Total*
1901	Portugal	122	435	818	1.668	1.302	4.345
	Other colonies	8	23	234	49	283	597
	Foreign countries	374	458	1.426	2.381	4.603	9.242
	Total	**504**	**916**	**2.478**	**4.098**	**6.188**	**14.184**
1913	Portugal	213	238	973	1.596	1.833	4.853
	Other colonies	13	22	440	14	904	1.393
	Foreign countries	1.402	948	2.313	4.439	9.050	18.152
	Total	**1.628**	**1.208**	**3.726**	**6.049**	**11.787**	**24.398**
1927-31	Portugal	9.028	8.405	13.190	85.009	81.958	197.590
	Other colonies	603	1.241	9.828	845	17.833	30.350
	Foreign countries	22.105	23.946	16.580	161.274	371.534	595.439
	Total	**31.736**	**33.592**	**39.598**	**247.128**	**471.325**	**823.379**
1932-36	Portugal	9.066	6.548	6.891	84.926	73.095	180.526
	Other colonies	618	2.754	4.387	475	5.236	13.470
	Foreign countries	17.349	14.188	6.372	83.836	226.273	348.018
	Total	**27.033**	**23.490**	**17.650**	**169.237**	**304.604**	**542.014**
1947-51	Portugal	109.667	31.958	48.471	720.163	549.245	1.459.504
	Other	40.568	242.649	210.156	751.739	1.181.660	2.426.772
	Total	**150.235**	**274.607**	**258.627**	**1.471.902**	**1.730.905**	**3.886.276**

SOURCE: Salgado (1939: table 8).

The government in Lisbon imposed highly restrictive policies in the colonies which balanced their budgets and the foreign trade deficits. Thus, the budgets of Angola and Mozambique moved into balance already in 1931 and Mozambique run a fiscal surplus for most of the following period, due to the revenues that accrued to the colonial government from taxation of the native emigration to the Union of South Africa [29]. The effect of such measures on the African economies must have been severe. The government did not want to lose control of the internal and external finances of its colonies and the colonies would not be allowed to became a burden for the metropolitan finances. Yet, the problem was about to fade away because after World War II the African colonies once again became a source of foreign currency for Portugal. The «archaic» system of re-exports through Lisbon enhanced by the 1892 tariffs was replaced in 1930 by a system of exchange controls whereby earnings in foreign currency from African exports had to be deposited in the Banco de Portugal, in Lisbon, in exchange for Portuguese escudos and other colonial currencies (the proportion of the two currencies varying from colony to colony). Domestic imports into the colonies could be paid by escudos, in Portugal, and imports from foreign countries had to be paid for in foreign currencies provided, within certain limits, by the Portuguese government [30].

Official data for balances of payments within the empire dates only from 1964, but it is possible to gauge the contribution of the colonies to Portugal's balance of payments by looking at the other accounts. For example, table 12 shows that the balance of payments on income account of the empire (Portugal and its colonies) was positive for most of the period from 1950 to 1971. Up to 1965, the income account of Portugal alone was in deficit and the overall surplus was attributable to the contribution of the colonies [31]. From 1965 onwards, the colonies retained their surpluses with Portugal. But by then Portugal ran a surplus with foreign countries and the relative importance of the colonies declined. From 1967 onwards contributions from emigrant remittances surpassed the colonies as sources of foreign exchange, and the contribution of the colonies to Portugal's foreign earnings had been dwarfed by 1973. In fact, the contribution of the colonies to Portugal's balance of payments can be correlated to their share in Portugal's trade. During 1960's, the share of

[29] See Duffy (1961, p. 331).

[30] See Castro (1980, p. 168) and Clarence-Smith (1985, p. 16).

[31] In the 1950's, the contribution of the African colonies for the balance of payments was also paramount for Great Britain, Belgium and France. See Rodney (1982, pp. 171-72).

TABLE 12

Balance of Payments
(000 contos)

	1 *Portugal-Foreign Countries*	2 *Colonies-Foreign Countries*	3 *Portugal-Colonies*	4 *Empire (1+2)*	5 *Portugal (1+3)*
1948	−3011	45	na	−2966	na
1949	−2461	425	na	−2036	na
1950	−397	868	na	471	na
1951	−152	2331	na	2179	na
1952	−1281	1702	na	421	na
1953	−791	2876	na	2085	na
1954	−1072	2460	na	1388	na
1955	−1327	1956	na	629	na
1956	−1406	2298	na	892	na
1957	−2422	2242	na	−180	na
1958	−2137	2962	na	825	na
1959	−2017	2807	na	790	na
1960	−3176	2647	na	−529	na
1961	−6455	3349	na	−3106	na
1962	575	2263	na	2838	na
1963	−711	2476	na	1765	na
1964	−495	3626	1861	3131	1366
1965	−485	2454	2945	1969	2460
1966	1868	2044	2002	3912	3870
1967	3974	2093	2417	6067	6391
1968	1268	2847	3033	4115	4301
1969	−514	2157	3587	1643	3073
1970	94	2437	2167	2531	2261
1971	7865	387	−200	8252	7665
1972	8763	1122	−641	9885	8122
1973	6517		1886		8403

Notes: Until 1967, errors and ommisions of the balance colonies-foreign countries are included in column 1.

SOURCE: Rocha (1982, tables 1 and 2).

the colonies in the Portuguese exports was 24 per cent (see table 4 above), which represented 4 per cent of Portugal's GDP and a slightly higher percentage of the industrial output. The contribution to the balance of payments was equivalent to about 1.8 per cent of GDP, in 1964.

TABLE 13

Sources of foreign currency compared
(000 contos)

	1	*2*	*3*	*4*	*5*
	Portugal-colonies Balances of Payments	*Trade*	*Total*	*Foreign Private Transfers*	*(3/4)*
1964	1861	1460	3321	2270	1,463
1965	2945	2165	5110	3109	1,644
1966	2002	1519	3521	4537	0,776
1967	2417	2512	4929	5993	0,822
1968	3033	2699	5732	7548	0,759
1969	3587	2424	6011	11277	0,533
1970	2167	1859	4026	13875	0,290
1971	−200	448	248	18266	0,014
1972	−641	2110	1469	21831	0,067
1973	1886	4081	5967	25569	0,233

Note:
SOURCE: Rocha (1982, tables 3 and 7).

TABLE 14

An estimate of colonial benefits in 1957
(000 contos)

	Angola	*Mozambique*	*S. Tomé & Principe*	*Guinea & C. Verde*	**Total**
Offical transfers of foreign currency	791	319	0	0	1110
Other revenues in foreign currency	561	0	0	0	561
Earnings from price differentials	500	155	0	100	755
Retained capital, interests and deposits	800	466	100	50	1416
Total	2652	940	100	150	**3842**

SOURCE: Castro (1980, pp. 170-71, 230-31, 311-12 and 360).

Armando Castro has provided alternative estimates of the contribution of the colonies to the Portuguese economy, the so called «colonial rent», for 1957 (see table 14). To official transfers of foreign currency, the author added the earnings from the sale of Angolan diamonds as well as transit revenues earned by the Benguela railways, which were exempt from exchange controls. He also takes into account the benefits derived from differentials in the price Portugal paid her colonies for some of their exports (compared to the prices obtained on international markets), and the retained capital, interests as well as deposits owned by Portuguese nationals [32]. According to Castro's estimates, the overall financial benefits of the colonies surpassed the official transfers of foreign currency by a large margin. In 1957, transfers from Angola and Mozambique, amounted to 1,110 contos and the other benefits totalled 2,732 contos, of which 1,861 contos originated from Angola. Castro's estimate is not fully comparable to the data set out in table 12, because it may contain items included in the balance of payments of the colonies and Portugal, as well as trade between the the colonies and foreign countries (particularly «hidden» revenues from diamond exports). Orders of magnitude are such, that we may safely conclude that the revenues from the colonies as estimated by Armando Castro imply a positive balance on current account for 1957, for Portugal and for the empire. Total benefits from the Portuguese colonies could have amounted to 6% of Portugal's GDP and Castro's estimates may be represented as an upper limit of the contribution of the colonies to the supply of foreign currency to the Portuguese economy.

How far colonial supplies of foreign currency made a contribution to Portuguese growth rates is debatable. Portugal had an investment gap due to a low level of domestic savings which had to be filled either by capital imports or invisible earnings from abroad and in that macro economic context the contribution of the colonies may have had an important role [33]. Given that exports of capital from Portugal to the colonies remained low in the early 1960's, the low level of domestic savings (compared even to other southern European countries), was hardly imputable to the retention of the empire. Edgar Rocha has argued that, in the 1960's, emigrant remittances contributed to the «overvaluation» of the escudo and thereby favoured imports, particularly of capital goods, and thus a more capital intensive pattern of growth. In the 1950's and 1960's, Portugal had the lowest capital-output ratio of the southern European countries. Thus the bias in favour of capital intensive growth was probably not a major problem and the country's favourable balance of payments position arising from

[32] In the 1960's, price differential turned against the colonies.

[33] See Green (1969, pp. 351-52).

colonial revenues —and emigrant remittances— had probably a net positive effect on the Portuguese economy [34].

Colonial wars, started in Angola in 1961 and pushed the expenditures with the colonies up to 26% of Portugal's public budget, from 1961 to 1974 (see table 4, above) and the share of the military in that budget to 85%, which imposed a severe contraction of investment expenditures in the African economies. The manning of this military effort represented 6% of Portugal's total labour force. The consequences of the expenditures on colonial wars for the Portuguese economy are difficult to analyse. The cost of the war was certainly high (representing 8% of GNP throughout the 1960's), a proportion that is higher than even the more optimistic estimates of the gains from the colonies in the late 1950's (see table 10 above). Although Edgar Rocha has argued that the increase in government spending induced by the war may have fostered the growth of demand for industrial goods, as well as the growth of domestic consumption, by reversing the tight fiscal policies that the governments had maintained since the early 1950's [35].

4. CONCLUSION

Portuguese industrial exports were sold on protected markets in Africa and certainly that had effects upon the industrial structure of the metropolis. Capital exports to the colonies remained low until the 1950's and only thereafter did they effect metropolitan financial markets. Emigration followed closely the pattern of capital exports and its effects should also be taken into account. Yet, the shares of the domestic industrial output, investment and population that were diverted by colonial protectionism were probably too low to make a large difference to the pattern and rate of Portuguese economic growth. This article deals in detail with only a part of the economic consequences of the empire, but that part was surely the single most important factor for macro economic growth.

The main thrust in this analysis is to emphasise the role of the colonies as a major source of foreign currency for the Portuguese economy. Portuguese economic and industrial growth has been dependent historically on the possibility of financing an adverse balance on current account in order to sustain imports of industrial inputs and food. That is basically

[34] See Rocha (1982, pp. 1070-74). For the capital-output ratio see Pintado (1964, p. 29).

[35] See Rocha (1977, p. 610) and Green (1969, p. 353).

why the foreign currency obtained through the sale of tropical products from the colonies made a positive contribution to metropolitan economic growth.

The interests of the Portuguese state in imperialism are very old and for centuries can be represented in terms of the substantial contribution made by taxes on colonial trade [36]. With the independence of Brazil in 1822, the Portuguese empire was reduced to three enclaves in the West Indies, East Timor, Macau, the military and commercial outposts along West and East Africa and a few stations in the interior of the continent. Up to the 1850's, Portuguese public and private imperial interests were centred in Africa and were pretty much restricted to the slave trade, which was in process of being shut down by the British sea power. In the following two decades, trade with Africa was liberalised but there was no real increase in the economic links between Portugal and the empire. Down to the mid 1880's, the administrative and military costs of the empire must have surpassed the revenues the state collected from a meagre and slowly growing trade in tropical products. For the first time in years, thus, the empire became a burden to the Portuguese government budget.

Once the treaty of Berlin in 1885 had defined Portuguese rights in Africa, governments in Lisbon decided to increase their investments in colonisation. Between 1890-1914, substantial amounts of foreign currency were obtained for the home economy from the sale of African produce re-exported through Lisbon. The Great War and the financial disruptions that followed endangered this version of mercantilism. But between 1930-31 a new system was created, based on the control of the monetary flows, rather than goods. This change, which may be seen as an intensification of colonial exploitation, was helped by the fact that the control of the African territories was almost complete, after decades of military campaigns. The benefits for Portugal's balance of payments were probably high from the start. Since 1948, when data for the balance of payments become available, they were undoubtedly important. The importance of the colonies for the economy was however being reduced by the early 1960's when Portugal increased its trade, investment and emigration links with industrial Europe and when the colonies became increasingly dependent on imports of industrial inputs and capitals from foreign countries. The contribution of the colonies as a source of external financing of the Portuguese economy faded away by the 1960's onwards

[36] See Jorge Pedreira, this issue.

and, contemporarily, the wars of independence created a heavy burden for the Portuguese government finances. Certainly, it was not the first time in the long period from 1822, that the African colonies were both a burden for the central government budget and a weak provider of foreign currency, Yet, by 1974-75, the domestic and international political climate was such that the last European colonial empire in Africa came to an end.

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THE SPANISH 1898 DISASTER: THE DRIFT TOWARDS NATIONAL-PROTECTIONISM

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I. INTRODUCTION

Two interrelated ideas are developed in this essay: first, that the consequences for the Spanish economy of loosing the last colonies —Cuba, Puerto Rico, and the Philippines— at the end of the nineteenth century were relatively small, and that it hardly can be regarded, as many historians have done as *the Disaster of 1898*. Second, that despite its small overall direct impact on the Spanish economy, the independence wars fought with the colonies, and the defeat at the hands of the Americans in 1898, started a process of intense political nationalism that resulted in the adoption of western Europe's most stringent autarchy at the beginning of the twentieth century. The colonial *Disaster* was therefore, an indirect one. Its economic consequences were first felt by Bentham's «ruling few» —in Spain's case, the wheat, flour, and textile traders of Castile and Catalonia— and later reached the «subject many» by way of their influence on the adoption of extreme protective measures («integral protection», as it became known by Spanish nationalists) facilitated by the general climate caused by the colonial loss.

The essay is divided in five parts. After this introduction, a brief section surveys the commercial involvement of European countries with their colonial (or ex-colonial) possessions, and establishes the fact that only Spain and Portugal, and to a certain extent, Turkey, had a significant volume of trade —higher than ten or twelve percent of all exports— with their colonies. The third part of the essay analyzes the trends and cycles of the most important series affected by the *Disaster* —foreign trade, capital flow, and some sectoral indexes that suggest that far from the disastrous impact usually assigned to the colonial losses of 1898, the independence of Cuba, Puerto Rico and the Philippines had, in fact, beneficial consequences for the Spanish economy, specially through the inflow of capital that the war produced. The fourth section examines the losses suffered by special interest groups —Castillian wheat and flour traders, and Catalan textile producers— that enjoyed the colonial monopoly; and the last part focuses on the political impact of *the Disaster* and its economic consequences.

II. COLONIAL MARKETS IN PERIPHERAL EUROPE

Losing Cuba, Puerto Rico, and the Philippines in 1898 was not Spain's major colonial defeat during the nineteenth century. Nine decades before, the campaigns of Bolívar, Sucre and San Martín led to the emancipation of Spanish South America from Madrid. Mexico had declared independence in 1810, and the Central American republics in 1823. Sucre's victory in the Ayachucho (Peru) battle against the Spanish royalist army in 1824, thus, put an end to three hundred years of the Spanish crown's sovereignty over a territory twenty five times larger than its peninsular dominions. Fear of a slave revolt —as in Haiti after emancipation in the 1790s and 1800s— and the economic prosperity afforded by the integration into the North American market of the sugar plantation system, kept the Caribbean possessions loyal to Madrid. Several independence attempts were suffocated from the metropolis, as in the case of Cuba's Ten Year War of 1868-1878, but Cuba, Puerto Rico, and the Philippines remained under Spanish domination until the end of the 1895-1898 conflict and the American intervention [1].

In any case, losing the mainland at the beginning of the century had noticeable commercial consequences: between 1784/96 and 1815/20 exports to the colonies dropped by sixty percent, and the pre-independence share of colonial markets on all Spanish exports, that accounted for over one third, was about one fifth at the end of the Napoleonic Wars [2]. Colonial exports recovered to some extent after the first years of independence but did not keep pace with the general expansion of the Spanish foreign trade, this time re-oriented towards other European countries. The colonial export share declined through the nineteenth century to levels below ten percent after the export boom of the 1890s (figure 1).

[1] For a bibliographical review of Cuban history and its debates, see Santamaría García (1996b), pp. 505-539.

[2] Prados de la Escosura (1993), pp. 262 and 267.

However, although most of Spain's foreign trade was redirected toward the rest of Europe after losing the colonial markets, exports to the remaining colonies still were an important part of foreign sales. Sales to Cuba doubled between 1850/4 and 1885/89 and went up even further during the last decade of the century due to new colonial tariffs of the 1870s and the war supplies during the Spanish-American war [3]. Although exports to Puerto Rico and the Philippines also grew throughout the century, the Cuban market was the destination of more than ninety percent of all Spanish sales to the colonies, and acted also as an entrepôt for peninsular exports to the ex-colonies on the mainland, specially during the first years after independence.

TABLE 1

Share of Colonial Exports in Several European Countries, 1885-1912
(five year averages)

Countries	*Exports*	*1895-1899*	*1900-1904*	*1905-1909*	*1910-1912*
Germany (mark)	Total	3,688,320	4,791,560	6,383,480	8,179,200
	Colonial	7,871	14,662	33,012	45,633
	%	0.208	0.305	0.518	0.560
Holland (gulden)	Total	1,406,345	1,838,677	2,185,132	2,825,954
	Colonial	63,312	67,985	84,183	137,009
	%	4.521	3.709	3.848	4.831
Belgium (francs)	Total	1,643,212	1,994,041	2,770,222	3,646,419
	Colonial	12,268	10,049	15,444	26,593
	%	0.769	0.502	0.560	0.728
France (francs)	Total	3,607,240	4,215,420	5,299,460	6,341,100
	Colonial	379,694	512,374	653,888	816,447
	%	10.486	12.154	12.344	12.860
Portugal (milreis)	Total	28,068	29,793	29,845	34,895
	Colonial	3,912	4,599	4,641	3,657
	%	13.784	15.310	15.546	15.675
Spain (pesetas)	Total	937,278	875,994	982,436	1,107,516
	Colonial	224,932	83,230	74,032	69,198
	%	23.346	9.512	7.539	6.088

SOURCE: *Statistical Abstract for the Principal and Other Foreign Countries, 1893-1912*, London, 1905-1914 [Cd. 2566], [6099] and [Cd. 7525].

[3] Maluquer de Motes (1974), pp. 330-333.

The importance of the colonial trade for Spain is best seen in comparison to other European cases of commercial relations with overseas territories. One of the best known facts in modern European commercial history is the intense concentration of foreign transactions among European countries. With the notable exception of Britain, which always retained strong commercial links with its colonies, most continental economies were the best clients of each other in foreign trade. Nevertheless, for some European nations —specially those from the periphery— colonial trade was still an important part of their total transactions. Table 1, shows to what extent the Belgian and German exports to their African colonies, the Dutch sales in Java and Guyana, and even the French exports to their vast empire, were smaller as a percentage of total exports than the colonial exports of Spain and Portugal. Despite the lack of reliable data for the Turkish case, the available statistics also show that Turkey's integration with central and northern Europe was not as important as in the case of more developed economies at the time, and that its colonies and ex-colonial territories still accounted for about fifteen percent of Turkish exports at the beginning of the twentieth century [4].

III. THE DISASTER'S ECONOMIC IMPACT

Despite the undeniable importance of colonial markets for the European backward metropolises, it is at least doubtful that the privileged monopolies they enjoyed were an indispensable requirement for their industrialization. However, traditional colonial historiography —at least in the Spanish case— has adopted the Leninist interpretation of Cuba, Puerto Rico and the Philippines as the last chance for Spain's industrial growth based on colonial markets. A good number of historians still debate the role of the last colonies as a leverage for acquiring the necessary market size for its manufactures, and consequently to what extent *the Disaster* of 1898 was a lost opportunity for Spain to join the ranks of industrial Europe [5].

The debate centers around the two traditional but basic propositions: the need for colonial markets as outlets for domestic manufactured output, and the colonial exploitation of Cuba. Although the second question is

[4] Mitchell (1995), pp. 523-527 and 610-611.

[5] Vilar (1974), p. 91; Maluquer de Motes (1974), Izard (1980), Llera and Romero (1996), pp. 263-295, and Abellán (1978), pp. 90-95.

beyond the purpose of this paper, the performance of the Cuban economy during the second half of the nineteenth century in comparison to those Latin American countries that did secede from Spain at the end of the Napoleonic Wars seems to cast doubt on the suggestion of an exploitative relationship. The colonial governments maintained a system of relative political stability, achieved by the independent Latin American republics only much later in the century. In this context, the reciprocal comparative advantage of the US and Cuban economies led to an intense commercial relationship and efficient market integration based in specialization: around one fourth of all US export to Latin America went to Cuba during the XIXth century, and almost half of all Latin American sales in the US market were of Cuban origin [6]. Per capita sugar consumption was growing at an annual rate of two percent in the US and British markets, and intensive technical and scale changes in the Cuban sugar sector led to rapid gains in productivity [7]. The output per sugarmill grew fifteen-fold between 1790 and 1860, and by mid-century Cuban per capita income was among the highest in the world, at the same level as those of Europe's advanced economies [8]. In any case, the «iniquitous colonial relationship between Cuba and the metropolis» [9] gave place on the island to a substantially more prosperous economy —at least 30 percent higher in income per capita terms— than in Spain [10].

With respect to the need of the colonies for industrialization, the rationale is the indispensable role played by captive colonial markets for metropolitan exports. In the Spanish case, the 1898 War translated into a drastic short-run reduction of exports to the Cuban protected market, but, as shown below, total Spanish exports were basically unaltered. As will be evident later, a substantial amount of the volume of total exports to Cuba was redirected to alternative areas of Latin America and Europe, and although they remained low relative to pre-1898 levels before 1914,

[6] Fraile Balbín and R. and L. Salvucci (1993), pp. 80-85.

[7] Santamaría García (1996a), pp. 225-250. Also see, Dye (1993), pp. 563-593.

[8] Fraile Balbín and R. and L. Salvucci (1993), pp. 94-101.

[9] Hart Baker Jr. (1976), p. 148.

[10] Fraile Balbín, R. and L. Salvucci (1993), p. 101, and Prados de la Escosura (1995), p. 197. Neither Spanish nor American domination after independence seemed to have harmed Cuban interests or those of the Spaniards living on the island. Most lands remained in Spanish hands after independence, and the Reciprocity Treaty of 1903 gave the island's cane growers freer access to the US sugar market, and more revenues from it. S. Levergott concludes: «The prime economic beneficiaries of the Spanish-American War, in sum, were Spaniards and Cubans who owned Cuban sugar land at the start of the war.» See, Lebergott (1980), p.303.

exports to Cuba started to recover soon after the First World War, and by the interwar years reached levels similar to those previous to the export boom of the 1870s [11]. In addition, the sales of services to the island remained almost unaltered. In contrast with the first experience of colonial independence, when Spain lost two thirds of its sales in transport, insurance and financial services [12], Spanish shipping companies remained very active in the island's trade, and most of the merchant firms and property owned by Spaniards in Cuba was practically unaffected by independence in 1898 [13]. Furthermore, unlike the sixty percent drop after the first wave of colonial seccession in the 1820s [14], custom revenues went up by more than one third between 1880/1900 and 1900/1910 [15]. Migration flows to Cuba doubled after independence [16], and this helped not only the growth of migrants-remittances [17], but also to increase and diversify Spanish exports —specially food products— to the ex-colony.

It is doubtful, therefore, that the loss of this colonial market seriously jeopardized Spain's chances for industrial growth. In the rest of this section, a more rigorous assessment is developed of the real impact on the aggregate Spanish economy of losing Cuba, Puerto Rico, and the Philippines in 1898. We propose to do this by searching for unusual years (outliers) or abnormal periods (structural breaks) using time series methods. We apply those techniques to several aggregate economic variables like foreign trade, capital flow and several sectoral indexes from the year 1859 to 1914.

Our goal is to isolate «unusual» or unstable periods in several economic variables during the years 1850 to 1914. A basic condition for aggregate data to support the hypothesis of the existence of a «Spanish 1898 Disaster» is that the time series analysis of the data should be able to identify the period around 1898 as an «unusual» or unstable period, creating structural breaks in the parameters of constant parameter models built over the full sample period. For that purpose we use recent time series techniques developed and implemented by Gómez and Maravall [18].

In particular, we consider that a certain year is «unusual» if the observation corresponding to that year is an «outlier» or if that year is affected by previous outliers.

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[11] Tena (1989), pp. 346-347 and 356.
[12] Prados de la Escosura (1993), p. 262.
[13] García Alvarez (1988), pp. 605-613.
[14] Prados de la Escosura (1993), p. 270.
[15] Comín Comín (1985), pp. 72-73.
[16] Sánchez Alonso (1995), pp. 281-282.
[17] García López (1992).
[18] The theory is explained in Gómez and Maravall (1994) and in Maravall (1988).

Let oz(t) be a particular economic time series variable observed at time t, for example OEXPORTS at time t, where t = 1850, ..., 1914 and let z(t) be the same time series variable but corrected for the unusual events (outliers), EXPORTS. Therefore the relationship between the two variables is,

$$oz(t) = outlier(t) + z(t) \tag{1}$$

If the outlier(t) component is equal to 0 for all time t, where t = 1850, ..., 1914, this means that during this period there has been no structural change in the oz(t) variable. If on the contrary, the outlier(t) component is different than 0 for some t we then check if among those unusual years is the year 1898 or its near future. Four different types of outliers are considered for each economic variables: innovation outliers (IO), additive outliers (AO), temporal changes (TC) and level shifts (LS) [19].

The basic idea of our methodology is the following: if the impact of losing Cuba, Puerto Rico and the Philippines, the so called «Spanish 1898 Disaster», affected aggregate economic variables we should be able to identify several outliers from 1898 and after. Otherwise, since we know that important events occurred, and this is not reflected on aggregated economic variables, it must be because all of these real effects washed out on the aggregate through reallocation of resources among different sectors of the economy (distributional effects among different sectors) or among different countries (trade). On the contrary, when an outlier is detected for a certain year T we would like to have a methodology that can provide us with a *quantitative measure of the temporal effects*: How long (*duration*) does the impact last? How large (*size*) is the quantitative effect on the economic variable? In appendix A, we give a brief introduction to the econometric methodology used in the empirical analysis.

The economic variables selected for this quantitative study of the aggregate effects of «1898» are the following [20]: observed export series (OEXPORT) from 1850 to 1914, observed real gross domestic product per capita (ORGDPPOP) from 1850 to 1914, observed index of bank deposits (OBANKING) from 1850 to 1914, observed current account balances (OCCBAL) from 1851 to 1914, current account +/− reserve

[19] See appendix A for a detailed explanation of the estimated models, a definition of each type of outlier and the unobserved components model decomposition (trend, cycle, etc.).

[20] See appendix B for an explanation of the terminology used for the analysis of each variable and for a detailed definition of the data used.

variations (CCBALM) from 1857 to 1914, manufacturing index of food products (FOOD) from 1850 to 1914 and manufacturing index of textile products (OTEXTILES) from 1850 to 1914.

Table 2 includes the time series (ARIMA) models estimated for the outlier corrected variable z(t). When certain types of outliers are detected in oz(t) from 1850 to 1914 this is reported in the table with the corresponding t-test of significance (t-ratio). In most of the cases analyzed in the paper, the absolute values of the t-ratios are always larger than the 1% or 5% critical values, and in those cases we always reject the null hypothesis that $w=0$ in favor of the alternative hypothesis of having detected an outlier ($w \neq 0$). When we do not report the t-ratio of w, like for the variables CCBALM and FOOD, it is because we could not identify any outlier effect on that variable ($w=0$).

All the series we are considering are nonstationary (with unit roots) and we therefore take first differences to make them stationary (no more unit roots). None of the autoregressive coefficients (AR) are significant in the estimated ARIMA models. The maximum moving average found was an MA(2) when modelling the first difference of the exports variable (OEXPORT). The variables OCCBAL, CCBALM and FOOD of Table 2, have significant moving average polynomials of order 1 (MA(1)). The first difference of ORGDPPOP, OBANKING and OTEXTILES have MA(1) coefficients which are not significant (white noise). In none of the models we were able to identify any type of misspecification (see bottom of Table 2 for details).

Only two of the four types of outliers are detected in the seven variables analyzed in Table 2: *additive outlier* (AO) and *temporal change* (TC), see appendix A. During the whole sample period, 1850 to 1914, several «unusual years» are found and the following outliers were detected for at least one of the seven series, 1872, 1898, 1899, 1907, 1911 and 1914. Among those dates the years 1898 and 1899 correspond to our period of interest. However, those two years influenced only two of the seven aggregated economic variables analyzed, OBANKING and OCCBAL, but not the rest of them.

In the observed index of bank deposits (OBANKING) the instantaneous impact of 1898 was equal to 2.05 million pesetas, with a significant t-ratio of 6.86 (see Table 2). The total impact until 1914 was 6.80 million pesetas and coincides with the shaded area, indicated in figure 2a of appendix C, when we compare the evolution of the variable OBANKING with that variable corrected for outliers (BANKING) from

TABLE 2

Detection of Outliers and Estimation of ARIMA (p,d,q) Models by Exact Maximum Likelihood

Additive Outlier (AO): outlier(T) = $w\ I_t(T)$ *Temporal Change (TC): outlier(T)* = $w\ \{1/0.7\Delta\}\ I_t(T)$ $oz(t) = outlier(t) + z(t)$				
where $z(t)$ *is* $\phi(B)\ \Delta\{z(t)=\mu\} = \theta(B)\ a(t)$	*AR(p)* $\phi(B)$ *coeffs.*	*MA(q)* $\theta(B)$ *coefficients.*	*Type of outliers detected*	*Misspecification detected **
OEXPORTS variable (1850-1914)				
ARIMA (0,1,2) ** μ = 18.86 t-ratio = (4.13)	—	$\theta_1 = -0.23$ t-radio = (− 1.85) $\theta_2 = -0.32$ t-ratio = (− 2.42)	**Year = 1914** Type = Additive outlier w = −543 t-ratio(w) = (− 6.88)	none
ORGDPPOP variable (1850-1914)				
ARIMA (0,1,1)	—	$\theta_1 = 0.15$ t-ratio = (− 1.27)	**Year = 1872** Type = Temporal change w = 10776 t-ratio(w) = (4.11) **Year = 1911** Type = Temporal change w = 11953 t-ratio(w) = (4.53)	none
OBANKING variable (1850-1914)				
ARIMA (0,1,1) μ = 0.10 t-ratio = (3.09)	—	$\theta_1 = -0.16$ t-ratio = (− 1.33)	**Year = 1898** Type = Temporal change w = 2.05 t-ratio(w) = (6.86)	none
OCCBAL variable (1851-1914)				
ARIMA (0,1,1)	—	$\theta_1 = -0.73$ t-ratio = (− 8.60)	**Year = 1899** Type = Temporal change w = 547 t-ratio(w) = (3.94)	none
CCBALM variable (1857-1914)				
ARIMA (0,1,1)	—	$\theta_1 = -0.56$ t-ratio = (− 5.10)	none	none
FOOD variable (1850-1914)				
ARIMA (0,1,1) μ = 0.72 t-ratio = (2.15)	—	θ_1 = w0.40 t-ratio = (− 3.46)	none	none

Additive Outlier (AO): outlier(T) = $w\ I_t(T)$ *Temporal Change (TC): outlier(T)* = $w\ \{1/0.7\Delta\}\ I_t(T)$ $oz(t) = outlier(t) + z(t)$				
where z(t) is $\phi(B)\ \Delta\{z(t)=\mu\} = \theta(B)\ a(t)$	*AR(p)* $\phi(B)$ *coeffs.*	*MA(q)* $\theta(B)$ *coefficients.*	*Type of outliers detected*	*Misspecification detected* *
OTEXTILES variable (1850-1914)				
ARIMA (0,1,1) $\mu = 0.79$ t-ratio = (3.13)	—	$\theta_1 = 0.06$ t-ratio = (0.47)	**Year = 1907** Type = Additive outlier w = 6.13 t-ratio(w) = (4.71) **Year = 1914** Type = Additive outlier w = 7.27 t-ratio(w) = (3.80)	none

* The misspecification analysis done corresponds to: *Normality* test of the errors, the *autocorrelogram* and *partial autocorrelogram* of the residuals and a *test of runs* on the residuals.

** See appendix A for a deeper explanation of the parameters estimated and the type of outliers.

1898 to 1914. The temporal profile of this impact is represented in figure 2b. It is clear that those effects are transitory with a decreasing impact. In fact, even though the effects last until 1914 the main duration of the 1898 impact lasted eight years, from 1898 to 1906, and it is evaluated in 6.48 millions of pesetas which represents 95% of the total impact, see Table 3 and figure 2b. This variable OBANKING can be decomposed in terms of the unobserved components, the trend (BANKINT) and the irregular component (BANKINGI) and those are represented in figures 3a and 3b. Clearly, since the outlier is of a temporal change (TC) type it is associated with the irregular component and not with the trend that would only include permanent changes.

In terms of the observed current account balances (OCCBAL) the instantaneous impact of 1899 was equal to 547 million pesetas, with a significant t-ratio of 3.94 (see Table 2). The total impact until 1914 was 1817.30 millions of pesetas and corresponds to the area between the two series of figure 4a from 1899 to 1914 and the shaded aerea of figure 3b. The temporal profile (TC) is represented in figure 4b.

Once again, the impact of 1899 is transitory and decreasing in time with the major effects finishing in 1906. Those effects are quantified as 1718.24 million pesetas and represents 95% of the total effect until 1914 (see Table 3 and figure 4b).

TABLE 3

Temporal Evaluation of the Impact of Outliers 1898 and 1899 on the Variables OBANKING and OCCBAL respectively

Year	*OBANKING (TC)* *	*Year*	*CCBAL (TC)* *
1898 **	2.0455063	—	—
1899	1.4318544	**1899** ***	547.00684
1900	1.0022981	1900	382.90479
1901	0.7016086	1901	268.03335
1902	0.4911261	1902	187.62335
1903	0.3437882	1903	131.33634
1904	0.2406518	1904	91.93544
1905	0.1684562	1905	64.354808
1906	**0.1179194**	**1906**	**45.048365**
1907	0.0825436	1907	31.533856
1908	0.0577805	1908	22.073699
1909	0.0404463	1909	15.451589
1910	0.0283124	1910	10.816113
1911	0.0198187	1911	7.5712788
1912	0.0138731	1912	5.2998951
1913	0.0097112	1913	3.7099266
1914	0.0067978	1914	2.5969486
Period 1898-1914	Total: 6.80	Period 1899-1914	Total: 1817.30
Period 1898-1906	Total: 6.48	Period 1899-1906	Total: 1718.24

* The outliers are of the temporal change (TC) type.

** The years of this shaded area correspond to the shaded area of figures 2a, 2b, 3a and 3b.

*** The years of this shaded area correspond to the shaded area of figures 4a, 4b, 5a and 5b.

The unobserved components of OCCBAL are represented in Figure 5a and 5b, respectively. The trend component (CCBALT) of Figure 5a has no clear tendency to grow and this is consistent with having an MA(1) with coefficient of -0.7 indicating that this series is close to stationary without taking first differences. The temporal change found is therefore added to the irregular component (CCBALI) in Figure 5b.

Finally, since the export variable is the most relevant one to analyze the aggregate impact of the «1898 disaster» on trade, we have completed a full analysis of this variable. In Figures 6a and 6b we represent the observed series and the additive outlier (AO) detected in 1914, respectively. Since Figure 6b is almost empty this means that there was no aggregate effect until 1914, which is the last year of the sample analyzed. The unobserved components decomposition in trend (EXPORTT), business cycle (EXPORTC) and irregular (EXPORTI) are represented in Figures 7a to 7c. Clearly the largest impact of the year 1898 and after, occurred in the cyclical component, but does not imply any structural change in the parameters of this component. Notice that it is the irregular component the one that was associated with the outlier found in 1914.

IV. THE SECTORAL EFFECTS OF THE DISASTER

Although the overall effect of colonial independence was not really a *disaster* for Spain, and despite the fact that it even had positive consequences for the ex-metropolis, the 1898 events did not leave Spain's industry and trade unaffected. To begin with, the assesment carried out in the previous section has not included the analysis of certain variables whose changes could have had direct and indirect, instant and lagged effects on the overall economic system. This is the case, for example, of the sharp depreciation of the Spanish exchange rate, and the increase in public expenditure and deficits of the 1895-1898 war [21], and even the previous independence attempt of 1868-1878 [22]. But even more important, the previous aggregate analysis did not take into account the specific effects that the colonial link, and its rupture, could have had on concrete sectors of the economy whose connection with the colonial trade was specially intense.

As in most colonial cases, the commercial relations between Spain and Cuba were dominated by a few sectors that included most of the transactions between the metropolis and her colonies, and benefited most from the captive Cuban markets. From mid-nineteenth century on, four groups of products —flour, cotton textiles, shoes and wine— represented between one half and two thirds of all Spanish sales to the island, and in the two decades preceding independence, exports of flour and cotton textiles accounted for almost a third of the total [23]. It was in these activities that some industrial capital was accumulated, and where the dynamic effects of colonial trade were to be felt. As in most cases of colonial relations,

[21] Maluquer de Motes (1996).

[22] Comín Comín (1988), vol. I, p. 338, and Tortella Casares (1973), pp. 198-199.

[23] Maluquer (1974), pp. 340-341.

the special interests of these sectors organized powerful lobbies that played a decisive role in shaping the overall colonial policy.

At the end of the Napoleonic Wars, the old mercantilist policy of commercial exclusion for non-Spanish trade, was relaxed to some extent. But the 1847 tariff again tightened protection for metropolitan exports. Differential rates in favor of Spanish products were increased again in 1870 and 1872, and under the *Commercial Relations Act* of 1882. However, that same year, an agreement was signed with the U.S.A. to accord preferential tariff treatment to American flour on the island in exchange for easier access of the colonial *ingenios* to the United States sugar market. From that moment on, exports of Spanish flour dwindled to almost nothing at the time of independence. Cotton textiles, on the other hand, continued to dominate colonial markets, and even though the loss of the colonies translated into an export crisis, this was only temporary. Exports to the rest of Latin America and Europe more than compensated for the Cuban market for at least one more decade after independence [24].

Flour exporters and wheat growers were located on the northern plateau of Castile, and used the port of Santander on the Bay of Biscay as their main connection with Cuba. The Caribbean trade made Santander the second mercantile port in Spain by mid-century, specially after the completion of the Castile Canal (1852) and a railroad (1859) that linked the northern coast to the wheat growing plains of north-central Spain [25]. Between 1780 and 1860 about one hundred and fifty flour mills were installed along this transportation route, all of them engaged with the protected Cuban market. Large trading firms, all of them managed by local merchant families, developed and diversified around Santander and some Castilian towns. This was the case of the Pombos, whose assets ranged from milling into sailing, railroads, banking, textiles, and food processing [26], and the López-Dórigas (later Botín) who are now one Spain's oldest entrepreneurial families. They also started as colonial traders but later became involved in steel mills, utilities, electricity, engineering, mining, sailing and banking (Banco Santander) [27]. Like Pombo and Botín, other family groups —Illera, Huidobro, Hornedo, Gallo— formed an extensive

[24] Sudria (1983), pp. 384-385.

[25] Hoyo Aparicio (1993); Martínez Vara (1985), pp. 73-96, and Martínez Vara (1986), pp. 175-203.

[26] Moreno Lázaro (1994), pp. 333-356.

[27] Moreno Lázaro (1993), pp. 168-190.

and technically advanced network associated with milling and flour exports to the protected Caribbean market [28].

Cotton textiles were heavily concentrated around Barcelona in Catalonia, and had developed behind high tariff walls from the last decades of the eighteenth century. Unlike flour, cotton textile exports started late, after the 1882 tariff reform that reserved the colonial market for peninsular producers. However, cottons became the leading export from the metropolis after American wheat was awarded free entry in 1882. In any case, the reaction to *the Disaster* was very different in both sectors. The independence of the last Spanish colonies meant the loss of protected markets and the need to find alternative outlets for their products. This was difficult for Castilian wheat growers and flour millers whose total exports after Cuban independence practically disappeared due to the competition of American suppliers. But most Castilian merchants diversified their firms into food processing, textiles, coal mining, construction, electricity and banking [29]. Catalan textile producers, on the other hand, fared much better in the new open market (figure 8). They found alternative foreign outlets for their exports, and it was not until extreme tariff protection of the home market made domestic sales more profitable —and competition abroad unnecessary— that Spanish textile exports were replaced by domestic sales [30].

In summary, for any complete analysis of the impact of loss of Empire, the global results presented in section III need to be taken in connection with their sectoral consequences. A closer look at the post-1898 events reveals that the loss of the last colonies had, indeed, a disastrous effect on the Spanish economy, and that traditional historians are, after all, right in assessing its consequences as a *Disaster*. The adverse effects, however, were not due to the loss of the colonial markets, but rather to the institutional changes the colonial independence brought about in Spain. Although they are right about the *Disaster*, it is likely that they have put too much emphasis on the traditional (positive) dynamic effects of protected markets —capital accumulation, technical change, economies of scale, learning by doing— while ignoring their negative, also dynamic,

[28] For an analysis of technological change in the Castillian mills, see Moreno Lázaro (1992), pp. 163-229.

[29] *Ibid.*, Hoyo Aparicio (1993), pp. 237-277.

[30] Despite their small size, the sucessfull performance of Spanish textile exports in open, post-colonial markets, is specialy relevant in view of the acritical aceptance by many economic historians of the Spanish manufacturers' inability to compete in international markets. See Sudriá (1983); Harrison (1974), pp. 345-346, and Izard (1980), pp. 113-121.

consequences. Captive colonial markets, as in any case of trade restriction, might have helped the accumulation of Spanish manufacturing capital in some sectors, like flour milling and cotton textiles. From the end of the nineteenth century to the Great Depression, output of Castilian wheat and flour and Catalan textiles expanded substantially, and it is likely that the increase was helped by the initial exploitation of the captive Cuban market. But it is at least doubtful that the reserved colonial market could have been the basis for successful industrialization in Spain. One of the dynamic effects of protection is increasing output in the short run, but another, seldom ignored dynamic effect, is the opportunity for output restriction that protection affords by eliminating foreign competition in small national markets. Spain's gradual deindustrialization (relative to other European economies) flowed from its very high barriers to trade [31]. In addition, the colonial character of the markets lost in 1898 by Spanish exporters had a clear differential effect at home. Losing the colonies put in motion a society-wide process of soul searching that carried in its train profound political consequences, and created the conditions for political nationalism and economic autarky.

V. THE POLITICAL CONSEQUENCES OF THE DISASTER

In addition to its merely commercial aspects, European imperialism at the end of the century had important military and political consequences for the peripheral countries of Europe. Italy started its incursions into the Dodecanese, Eritrea, Somalia, Abyssinia, Libya, and later the Balkans. After losing Brazil in 1822, Portugal started its African territorial expansion, and between the 1885 Berlin Conference and 1935, acquired the recognition of its sovereignty over more than two million square kilometers. Similarly, after its independence in (1821-1828), Greece acquired through wars and diplomatic pressures the Ionian islands (1864), Thessaly and part of Epirus (1881), Macedonia, Crete, west, and later east, Thrace (1920), and practically all the Aegean islands, and even invaded Turkey —reaching near Ankara in 1921 [32].

Only the two large colonial powers at both ends of the Mediterranean —Spain and Turkey— suffered territorial losses from their colonial empires at the turn of the century. In the Spanish case, the attempts to recover

[31] Fraile Balbín (1991).
[32] Gianaris (1982), pp. 36-37.

their Latin American possessions and to establish new colonies in Africa were not enough to alleviate «the Disaster» [33]. As for Turkey, the territorial losses started at the end of the eighteenth century and resulted in military conflicts with all its neighbors, and even with France and Britain. Throughout the nineteenth century up to the Great War, the Turkish «disaster» resulted in the loss of the Balkans, Greece, Crimea, Egypt, the Middle East, and Northern Africa.

The implications of these two processes were of great importance for both countries' economic development in subsequent years. Regardless of the direct impact of the colonial emancipation on Spain's foreign transactions, the political impact was of such magnitude, that losing its empire —or what was left of it— shaped policy making for a long time afterwards. The trend towards economic nationalism —specially through tariff protection— found in the political climate created by «the Disaster» is one of its most enduring legacies.

From the Young Turks to Kemalism and its Six Arrows program of étatism and economic nationalism, the Turkish movement of «defensive modernization» was the reaction to the loss of territorial hegemony and capitulations [34]. The Spanish Disaster also had deep political consequences, which in turn created a path towards economic nationalism and autarky. Modern political analysis of nationalism assigns military defeat a central role in the development of national movements. Like economic exploitation, or the denial of cultural individuality, military defeat may be one of the most powerful affronts felt by the elite in charge of defining (inventing) national identity. Defeat at the hands of a foreign army becomes a powerful excuse and a basic reference for identifying the enemy and setting the limits to national enterprise. This helps not only to sanctify the nation and the national project, but also to enhance the nationalist sentiments and to cement the state's central place as the project's leader. Recent research on nationalism indicates that this was the case of Spain

[33] Attempts at regaining colonial control were made in Chile and Peru in 1866-68. An expedition was sent to Indochina in 1860, and to Mexico in 1862. The expansionary movement in Morocco started at least with the war of 1859-60 and continued well into the twentieth century (1921-25). Even Portugal became an object of interest for unification and expansion in the so called *Iberian Movement* that started after the Napoleonic Wars. See Rocamora (1994).

[34] Mustafa Kemal's regeneration program during the 1920s and 1930s was based on six proclaimed principles: étatism, nationalism, populism, secularism, revolutionism and republicanism. See, Dumont (1984), pp. 25-44; Rustow (1973), pp. 100-101, and Gianaris (1982), pp. 43-44.

after the war of 1898 [35]. Spanish modern nationalism had already started half a century ago based on the «invention» of the war and victory against the 1808 Napoleonic invasion [36], so that the Spanish-American conflict put an abrupt and bitter end to a period of national myth-making. The public perception of the defeat in the 1898 Spanish-American War was that of a profound and far-reaching failure. The long historiography on the Disaster shows a firm consensus on the deep crisis that losing the last colonies meant, and on the pessimism it induced about Spain's economic conditions [37]. Journalists, writers, intellectuals, politicians and, of course, the military, all combined to create an atmosphere of disproportionate frustration that had not had any previous equivalent, even when Spain lost the bulk of its four centuries old empire eighty years before [38]. While losing the mainland colonies in the 1820s was perceived as «a loss of the King's territories», the loss of 1898 —a mere 2 percent of what had been the large Spanish Empire's territory— was taken as «our own collective failure» [39] by the nationalist elite. The Spanish intelligentsia, and the middle class «became suddenly aware of the country's backwardness» [40] and set out to put a remedy to it through national economic *regeneration*.

The Disaster contributed to enhance the sense of both economic failure and urgency of reform, and this gave way to the ideas of a necessary *nostrification* of the Spanish economy as a remedy for backwardness. The nationalist path for progress was formulated by the *regeneration* writers, who as a consequence of the 1898 colonial defeat, found a further motive to *nationalize* the domestic market. The central figure of the regeneration movement, Ramiro de Maeztu, saw it in these terms:

> The loss of our colonial markets makes clear how shallow and peripheral our economic evolution is... It is pointless for Biscay to produce iron and

[35] Álvarez Junco (1995), pp. 93-105.

[36] Álvarez Junco (1994), pp. 75-99. The debate on the origins of Spanish modern nationalism is focused on the notion of the need of a wide popular political movement that in Spain did not exist. See Blas Guerrero (1989, 1991, 1994, 1997); Payne (1964), pp. 403-422; Fusi Aizpurua (1990), pp. 33-34; Jover Zamora (1981), pp. VII-CLXII, and Jover Zamora (1983), pp. 355-374.

[37] Serrano (1996), pp. 73-87.

[38] Rivera Córdoba (1978), pp. 70-80; Abellán (1978), pp. 90-95; Llera Esteban and Romero Samper (1996), pp. 263-295, and Varela (1997).

[39] Álvarez Junco (1997), pp. 36-67.

[40] Álvarez Junco (1995), p. 103. The influential thinker Francisco Giner de los Ríos wrote at that moment: «Spain is now the land where all spiritual and material misery is settled» [cited in López-Morillas (1980), p. 21].

> Catalonia to weave textiles... For these manufactures to take root on solid ground we would need now that our national nucleus, our granary, the Castillian plateau, would become an ample market with enough consumption power [41].

The national market, however, was small and lacked enough purchasing power to support domestic manufacturing in competition with foreign suppliers. A period of isolation was deemed necessary for the development of economies of scale and competitive ability in mature industrial (and also agricultural) sectors. Failure and urgency, then, combined to accelerate the trend towards autarky that characterized the twentieth century Spanish economy. This drift toward radical autarky had, of course, been started before, but it owed much of its strength to the climate of nationalism created by the loss of international status as a colonial power. The exaggerated perception of failure and urgency created a favorable environment for rent-seekers, some of them with sincere patriotic intentions. In addition to the groups directly affected by the loss of privileges, large social groups of the middle class that had not profited from the colonies felt their patriotic pride wounded, and channeled their frustration by blaming the State for the treason and dishonor imposed on Spain. Their rebellion found its best expression in the Producer committees *(asambleas de productores)*, the chambers of commerce and agriculture, and an endless number of associations of farmers, merchants and small manufacturers that adopted regeneration, i.e., economic nationalism, as their central goal [42].

Tariff protection and other means of isolation from foreign competition were, of course, old hat in the Spanish tradition. The tariffs of 1849, 1877, and specially 1892, made Spain one of Europe's most protected markets many years before losing the last colonies. In addition, the return to tariff protection was common in all Europe. But in the Spanish case, the regeneration movement that pervaded the country at the turn of the century accelerated protectionism to a degree higher than in any other European economy [43]. Regardless of the economic losses for the country as a whole or for the two main sectors involved in colonial trade, the groups representing the colonial interests —notably wheat growers and textile

[41] Maeztu (1967), p. 102.

[42] Seco Serrano (1988), pp.387-393.

[43] Liepmann (1938), pp. 383-398; for a more accurate estimate of Spain's differential protection levels see, Tena (1997).

producers— organized themselves into powerful lobbies [44] that found an irrefutable excuse and a favorable nationalistic framework to achieve unparalleled tariff protection. We could conclude, therefore, that the loss of Cuba, Puerto Rico, and the Philippines was, indeed, a *disaster* for the Spanish economy, but not necessarily due to the direct impact of losing the captive colonial markets, but rather for the economic nationalism that, as an indirect consequence, was imposed in Spain during most of the rest of the twentieth century.

APPENDIX A: ECONOMETRIC METHODOLOGY

In this appendix we briefly review the main time series concepts that are needed to define the four different types of outliers used in this paper and to define the measures used for the impact (size) and the temporal effects (duration) of the outliers.

Remember, from equation (1) of the text, that oz(t) is the observed variable and that z(t) is the same variable but outlier corrected, that is $z(t) = oz(t) - \text{outlier}(t)$.

The outlier corrected series z(t) can usually be represented by an autoregressive, integrated, moving average model, ARIMA(p,1,q), like

$$\phi(B)\, \Delta\, \{z(t) - \mu\} = \theta(B)\, \varepsilon(t) \qquad (A.1)$$

where $\Delta z(t) = z(t) - z(t-1)$ is the first difference of the series z(t), $\varepsilon(t)$ is a sequence of independent, identically distributed, Normal variables with mean 0 and constant variance (white noise or innovations). B is the lag operator, so that $B^k z(t) = z(t-k)$, and the polynomials $\phi(B)$ and $\phi(B)$ are polynomials in B of order p and q. In particular the autoregressive polynomial of order p, AR(p), is $\phi(B) = 1 + \phi_1 B + \ldots + \phi_p B^p$ and the moving average polynomial of order q, MA(q), is $\theta(B) = 1 + \theta_1 B + \ldots + \theta_q B^q$. In practice with annual data the order of the autoregressive polynomials p and the order of the moving average polynomials q are usually lower or equal to 2. In our case p was always equal to 0, AR(0), and q was always equal to 1, MA(1), but in the case of exports that was equal to 2, MA(2). Therefore the two types of estimated models of Table 2 are: an ARIMA(0,1,1) which can be written as,

[44] Varela Ortega (1991), pp. 7-60, and Fraile Balbín (1991).

$$\Delta \{z(t) - \mu\} = \varepsilon(t) + \theta_1 \varepsilon(t-1) \qquad \text{(A.2)}$$

and an ARIMA(0,1,2) model,

$$\Delta \{z(t) - \mu\} = \varepsilon(t) + \theta_1\varepsilon(t-1) + \theta_2 \varepsilon(t-2) \qquad \text{(A.3)}$$

The ARIMA(p,d,q) representation is very general and can give good approximations to most of macroeconomic variables expressed in real and monetary terms when d is equal to 1 or 2. Furthermore, equations (1) and (A.1) to (A.3) allow us to incorporate the four different types of outliers previously mentioned [45].

Let $I_t(T)$ be a *dummy variable* defined as $I_t(T) = \{1 \text{ if } t = T \text{ and } 0 \text{ if } t \neq T\}$. That is $I_t(T)$ is a variable which is always equal to 0 except for the year T, where the year T can be any year from 1850 to 1914. For example, if a «disaster» occurred in aggregate economic variables in 1898 we should be able to identify T with the year 1898.

Definition 1: *Innovation outlier* (IO)

The outlier(t) is an innovation outlier at time T if it can be represented by,

$$\text{outlier}(T) = w \{\theta(B)/\phi(B)\Delta\} I_t(T) \qquad \text{(A.4)}$$

where w is the constant that measure the *size of the impact* and the lagged polynomial $\{\theta(B)/\phi(B)\Delta\}$ measure the *duration of the impact* of the outlier at time T on the variable oz(t). Notice that when $w = 0$, there is no outlier effect and therefore this is the hypothesis we are testing in Table 2 by reporting the t-ratio of w. The name «innovation» outlier comes from the fact the its effects on oz(t) are transmitted through the innovations $\varepsilon(t)$ of model (A.1).

Definition 2: *Additive outlier* (AO)

The outlier(t) is an additive outlier at time T if it can be represented by,

$$\text{outlier}(T) = w\, I_t(T) \qquad \text{(A.5)}$$

where w is the constant that measure the *size of the impact* of the outlier at time T on the variable oz(t). Notice that now the outlier at time T has an *instantaneous impact* affecting, oz(t), only at time $t = T$ but not during the rest of the years.

[45] This is implemented by sing the program TRAMO of Gómez and Maravall (1996).

Definition 3: *Temporal change* (TC)

The outlier(t) represents a temporal change at time T if it can be represented by,

$$\text{outlier}(T) = w \, \{1/\delta\Delta\} \, I_t(T) \qquad \text{(A.6)}$$

where w is the constant that measures the *size of the impact* and the lagged polynomial $\{1/\delta\Delta\}$ measures the *duration of the impact* of the outlier at time T on the variable oz(t). Usually δ is equal to 0.7 which means that the outlier at time T has an impact with effects that last several periods in the future (duration) and the sizes of the impacts on oz(t) decreases exponentially through time (transitory effect).

Definition 4: *Level shift* (LS)

The outlier(t) represents a level shift at time T if it can be represented by,

$$\text{outlier}(T) = w \, \{1/\Delta\} \, I_t(T) \qquad \text{(A.7)}$$

where w is the constant that measure the *size of the impact* and the lagged polynomial $\{1/\Delta\}$ measure the *duration of the impact* of the outlier at time T on the variable oz(t). Notice that now the outlier at time T has a *permanent impact* affecting, oz(t), not only at time $t = T$ but during the rest of the years (permanent effect).

Once we have the estimated ARIMA model for the series z(t) we would like to decompose the observed series in three different unobserved components [46]: the trend, the business cycle and the irregular component,

$$oz(t) = trend(t) + cycle(t) + irregular(t) \qquad \text{(A.8)}$$

This decomposition is interesting because we can associate and measure the impact of the outliers on the different components. This property is very important since the economic and policy implications of outliers are different contingent on affecting the trend (permanent component), the business cycle (transitory component) or the irregular component (innovations).

[46] The unobserved components models are obtained using the program SEATS of Gómez and Maravall (1996).

APPENDIX B: THE DATA

OEXPORT is defined as exports (f.o.b) in constant 1913 prices in millions of pesetas (Antonio Tena: «Comercio exterior», in Albert Carreras (ed.), *Estadísticas Históricas de España. Siglos* XIX *y* XX, Madrid: Fundación Banco Exterior, 1989, pp. 340-343).

ORGDPPOP is the real gross domestic product per capita at 1980 constant pesetas (L. Prados de la Escosura: «Spains's gross domestic product...», cit., pp. 101-102).

OBANKING is an index of bank deposits (1958 = 100) (*ibid.*, pp. 77-78).

OCCBAL is the current account balances in millions of pesetas *(ibid.)*.

CCBALM is defined as the current account balances plus (minus) changes in gold and silver reserves in millions of pesetas (*ibid.* and Juan Hernández Andreu: *Historia Monetaria y Financiera de España*, Madrid: Síntesis, 1996, pp. 239-241).

FOOD is a manufacturing index of food products, 1958 = 100 (L. Prados de la Escosura: «Spain's Gross Domestic product...», cit., pp. 71-72).

OTEXTILES is a manufacturing index of textile products 1958 = 100 (*ibid.*, pp. 71-72).

The terminology used in the text, in Figures 2 to 7 and in Tables 2 and 3 is the following:

Consider the variable EXPORT where we have found some outliers and we have decomposed the series in three components: trend, business cycle and irregular. When outliers are found, the original series is identified by the name of the series but adding an **O at the beginning of the name**, meaning **observed** series, **oz(t)**, and the series corrected for outliers by the name of the series without beginning by an o, **z(t)**. Example, oz(t) = OEXPORT = Observed EXPORT series with outliers, and z(t) = EXPORT series corrected for outliers (free of outliers).

The trend component of the series is identified by the name of the series but adding a **T at the end of the name,** meaning **Trend**. Example, EXPORTT = Trend component of EXPORT.

The business cycle component is identified by the name of the series but adding **a C at the end of the name**, meaning **Cycle**. Example, EXPORTC = Business cycle component of EXPORT.

The irregular component of the series is identified by the name of the series but adding an **I at the end of the name**, meaning **Irregular**. Example, EXPORTI = Irregular component of EXPORT.

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EXPLORING EXPLOITATION: THE NETHERLANDS AND COLONIAL INDONESIA 1870-1940

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INTRODUCTION [2]

Studies of the economic relations between Great Britain and its colonies, such as Hopkins (1988) and O'Brien (1988), have revitalised controversy about the relevance of economic factors in the history of imperialism. Some have denigrated the relevance of the Hobson-Lenin thesis that capitalists required new overseas investment opportunities to postpone the collapse of capitalism, and the argument that colonies were a paying proposition. This article assesses the economic relations between the Netherlands and its colony Indonesia. It aims to raise the profile of this connexion in the controversy mentioned above, and to explore whether and to what extent the economic relationship may be crucial to explaining «metropolitan» economic development and «peripheral» underdevelopment.

The article will first list some key arguments in the international debate and survey the historiography involving the Netherlands-Indonesia relations. It will proceed with an assessment of the relevance of the general arguments in the fields of commodity trade and capital flows for this tandem. It will also provide a concise indication of the contribution of income flowing from the relations with Indonesia to the Dutch economy before World War II.

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[2] This is an abbreviated version of a paper presented at seminars and conferences in Canberra, Melbourne, Davis, Groningen and Madrid. I am grateful to those attending these gatherings for their comments, in particular Professors Heinz Arndt, Peter Lindert and Patrick O'Brien.

THE MAIN ARGUMENTS

The classic theory of economic imperialism is a combination of ideas formulated by Hobson and Lenin [3]. In a nutshell, it suggests that imperialism is primarily driven by economic forces. Capitalists require new investment opportunities overseas to stave off falling profits at home and thereby postpone the inevitable collapse of capitalism. State-capitalist collusion is required to guarantee entrepreneurs higher rates of return. Collusion guarantees monopolistic rents and/or other mechanisms to raise factor payments (profits, interest and metropolitan wages) above competitive market rates. Collusion also leads to political occupation of foreign areas and the establishment of colonies.

Neo-Marxist interpretations of economic imperialism have stretched the Hobson-Lenin thesis to cover several centuries in the development of world trade, rather than only the situation around 1900. They suggest that imperialism is only one of the forms of capitalist oppression. Other arguments are that colonising countries required colonies to secure supplies of cheaper raw materials, and as markets for their manufactures.

The «colonial drain» argument is based on the fact that many colonies ran a trade surplus. The extent to which the value of merchandise exports exceeded that of imports is regarded as a loss to colonies and a gain to colonisers [4]. This view ignores the extent to which a merchandise trade surplus (or deficit) covers a deficit (or surplus) on the services provided by foreign capital and labour. As Ricardo demonstrated long ago, there are few reasons to postulate that two countries cannot benefit from foreign trade.

The dynamic, or developmental argument maintains that the political status condemned colonised countries to the production of primary commodities. It presumed a structural fall in the terms of trade of primary commodities against manufactures, which prevented colonies from reaping gains from foreign trade. Although the terms-of-trade argument may have been valid in the short term, the argument fails to appreciate that

[3] There is a wealth of literature on «imperialism» and «colonialism», which goes well beyond the Lenin-Hobson thesis. See *e.g.* Fieldhouse (1983).

[4] See: Golay (1976). There is no essential difference between the Hobson-Lenin thesis and the «drain» argument, apart from the fact that the Hobson-Lenin thesis states that state-capitalist collusion results in returns to capital above the opportunity cost of capital, which the «drain» thesis assumes only implicitly.

improvements in productivity generally off-set adverse changes in the terms of trade [5].

The Netherlands-Indonesia tandem has hardly featured in these discussions, partly due to the lack of fundamental research exposing these issues to rigorous testing, partly because historians of Indonesia tacitly adhere to such explanations for Indonesia's underdevelopment. The common opinion in the economic historiography of the Netherlands is that the Netherlands-Indonesia association does not fit the Hobson-Lenin model. Van Zanden's (1989, 1996) surveys indicate that industrialisation and «monopoly capital» played a relatively minor role in the Dutch economy during the 19th century, which makes the Netherlands a special case among colonising countries.

This view was recently confirmed by Kuitenbrouwer (1991, 1994) in surveys of the current debate on Dutch imperialism. He concluded that, unlike Great Britain, «metropolitan» economic interests came second to both strategic and «peripheral» factors in Dutch colonial expansion in Southeast Asia. Conversely, the success of Dutch commercial expansion was not based on its overseas contacts with the colonies, but on the development of intra-European economic connexions, in particular with Germany. Although Kuitenbrouwer discussed at length the political reasons behind Dutch imperialism, both in the Netherlands and in the «periphery» in Indonesia, his survey was brief about perceived or actual economic reasons for the consolidation of Dutch colonial rule.

The importance of late-colonial Indonesia for the Dutch economy does not feature prominently in current Dutch economic historiography [6]. Some recent monographs have established the significance of Indonesia for individual enterprises or industries, but there is little attention to the overall importance of Indonesia to the Dutch economy during 1870-1940 [7]. An article by Derksen and Tinbergen (1945) on the contribution of Indonesia to Dutch national income during 1925-38, published 50 years ago, is still the most authoritative study.

Yet, the «colonial drain» argument is a contentious issue in the economic historiography of Indonesia. Booth (1989) re-identified it as a

[5] O'Brien (1997) p. 93.

[6] Van Zanden (1989, 1996) omits it from his surveys of current Dutch economic historiography.

[7] For instance, the authors of a recent textbook on Dutch economic history (Van Zanden and Griffiths 1989) asserted that colonial Indonesia had been very important during 1900-40, but only spent 5 of 165 pages on the issue.

key malefactor in explanations of Indonesia's underdevelopment, albeit without scrutinising all intricacies. In general, historians of Indonesia assume that «fabulous riches» from the colonies accrued to the Dutch economy. This view was re-enforced by Maddison (1989), who assumed that the Indonesian merchandise trade surplus could be equated to the «drain» of funds from Indonesia to the Netherlands. Albeit crude, this indicator of «colonial exploitation» goes in Maddison's opinion a long way to explaining underdevelopment in Indonesia and development in the Netherlands up to World War II.

If the economic arguments for Dutch imperialism stand up, we would expect an intensification of bilateral trade, a prominent and growing position of Indonesian primary commodities in Dutch imports and a privileged place for Dutch manufactures in Indonesian imports. We would also expect Indonesia to have a large share in Dutch foreign investments, and profits of foreign enterprise in Indonesia to have been relatively high due to state-capitalist collusion. The article will address each of these issues in turn.

BILATERAL TRADE

Table 1 surveys the development of bilateral trade of the Netherlands and Indonesia. There are some problems in the comparability of the foreign trade statistics of both countries. In particular, the discrepancy between Dutch import from Indonesia and Indonesian export to the Netherlands is caused by two factors [8]. Firstly, Dutch foreign trade statistics were not corrected for transit trade (generally to and from Germany and Great Britain) before the major revision of 1917. This explains the discrepancy between columns 1 and 10 up to the 1920s [9]. Secondly, during the 19th century most Indonesian goods were shipped to the Netherlands for auction. With the improvement of international communications (particularly the telegraph), Indonesian exports were increasingly shipped to the Netherlands «for order». Ships received orders for their final destination outside the Netherlands at ports en route to Europe. This explains the discrepancy

[8] Lindblad (1988), Lindblad and Van Zanden (1989).

[9] It is likely that the problem continued to plague the Dutch trade statistics. The Netherlands had a significant import surplus with Germany and an export surplus with the UK during the 1920s and 1930s, which may reflect transit trade. See: Keesing (1947) pp. 52, 92, 140, 207 and 269.

TABLE 1

Dutch and Indonesian Merchandise Trade, 1870-1939
(million guilders or rupiahs)

	The Netherlands						Indonesia					
	Imports			Exports			Imports			Exports		
	from Indonesia	Total	%	to Indonesia	Total	%	from the Netherlands	Total	%	to the Netherlands	Total	%
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1870-79	74	690	10.7	41	513	7.9	42	90	46.8	107	156	68.6
1880-89	88	1,080	8.2	46	864	5.3	51	137	37.2	75	191	39.2
1890-99	219	1,445	14.6	59	1,242	4.7	55	162	33.8	79	207	38.3
1900-09	366	2,463	14.9	72	2,022	3.5	73	213	34.0	103	325	31.7
1910-19	357	2,544	14.0	116	1,979	5.8	108	458	23.5	166	820	20.2
1920-29	141	2,493	5.6	158	1,672	9.5	205	932	22.0	257	1,562	16.4
1930-39	79	1,464	5.4	71	1,018	7.0	78	457	17.1	126	700	18.1

Note: Ten-year annual averages. The Dutch and Indonesian guilder were almost at par.
SOURCES: Calculated from MITCHELL, B. (1981): *European Historical Statistics, 1750-1975*, Basingstoke: Macmillan, pp. 510-5 and 562-5; KORTHALS ALTES, W. L. (1991): *Changing Economy in Indonesia Vol. 12a: General Trade Statistics 1822-1940*, Amsterdam: Royal Tropical Institute, pp. 76-103.

between columns 1 and 10 in the 1920s and 1930s. The difference between the columns 4 and 7 in the 1920s is mainly caused by variations in the unit prices of imports in Indonesia, compared to the Netherlands.

Table 1 indicates that the Netherlands had an important merchandise trade deficit and colonial Indonesia a notable surplus. Furthermore, the total value of Indonesia's trade was much lower than that of the Netherlands. Even if the Dutch data are corrected for transit trade, Indonesia's trade amounted to 45 percent of Dutch trade during 1872-1913 [10]. In per capita terms, Dutch exports were around *f*495 (*f*135 excluding transit trade), compared to *f*8 in Indonesia in the decade after 1900 [11]. Consequently, the Dutch economy depended to a much higher degree on foreign trade than Indonesia.

[10] Lindblad and Van Zanden (1989, p. 262) provided such corrected data.

[11] The Dutch guilder was official currency in both the Netherlands and colonial Indonesia. During 1870-1930 the guilder traded at around US$0.40.

Dutch foreign trade expanded rapidly during the three decades preceding World War I, which conforms with the rapid growth of world trade [12]. The main expansion of Indonesian foreign trade took place during 1900-29, despite the disruption caused by World War I and the volatility of global commodity markets. In both countries total imports and exports increased faster than trade between them, which is reflected in the fall of the shares in columns 3, 6, 9 and 12. Any discrepancies in the data are not substantial enough to cast doubts on these trends. It is possible to circumvent the deficiencies of the Dutch trade statistics, by using data on Dutch foreign trade, from which an estimate of transit trade is deducted, and the Indonesian data on Dutch-Indonesian bilateral trade [13]. In that case the share of Indonesia in Dutch imports fell from 31.7 percent in the 1870s, to 19.3 percent 1880s, 15.4 percent 1890s and 15.3 percent 1900s, while the share of Indonesia in Dutch exports remained roughly constant at 15.5 percent in the 1870s, 17.4 percent 1880s, 15.3 percent 1890s and 15.7 percent 1900s, after which it started to fall. These estimates confirm the trends in the columns 3 and 6.

The bilateral trade contacts may have been of importance to the Netherlands and of great significance to Indonesia in the 1870s, but thenceforth trade links between both countries decreased continuously. This is in contrast to the development of trade relations between Great Britain and its colonies during these years, and contradicts economic interpretations of imperialism.

TO OBTAIN RAW MATERIALS

The decreasing importance of bilateral trade reflects the demise of the Netherlands as the staple-market for traditional Indonesian export commodities, such as spices, sugar, coffee, tea and tobacco. During the 19th century most of these had been auctioned in Amsterdam. But the improvement of international transport and communications made it possible to auction products in Indonesia or ship them directly to overseas customers.

A major explanation for the fall of the share of the Netherlands in Indonesian exports is the termination of sugar exports to refineries in the Netherlands. After the demise of the Cultivation System in 1870, exposure

[12] Lewis (1978).

[13] Lindblad and Van Zanden (1989), p. 262; Korthals Altes (1991), pp. 76-103.

to international competition forced many sugar factories in Java to re-organise their operations. Their owners updated the processing facilities, started to refine sugar in Java and increasingly shipped produce directly to overseas customers. In 1870 86 percent of Java sugar went to the Netherlands, by 1880 only 10 percent. Another commodity which helps to explain the general trend is rubber. Most of Indonesia's rapidly increasing rubber exports during the 1910s and 1920s was sent directly to processing plants in Singapore and the United States (US).

Hence, most of the raw materials exported from Indonesia were not processed in the Netherlands. They increasingly went to countries other than the Netherlands for consumption or further processing, including many other developing countries in Asia. For instance, India, China and Japan became major purchasers of Java sugar. Primary materials indeed continued to dominate Indonesia's exports up until the 1980s, but the expansion of Dutch colonial rule was obviously not accompanied by growing Dutch dominance over Indonesia's raw materials.

Nevertheless, particular commodities could have been important for the establishment and development of several Dutch industries. After 1870, the most important products among Indonesia's exports to the Netherlands were tobacco, coffee, tin ore and copra. Table 2 indicates that the Dutch share increased only over time in the case of tobacco.

The Dutch sugar refining industry had evolved on the basis of raw sugar from Java. With the refurbishing of the Java sugar industry after

TABLE 2

Percentage share of the Netherlands in Indonesian exports, 1874-1939

	Share of export to the Netherlands			*Product share in Indonesian exports, 1905-30*
	1874-1904	*1905-30*	*1931-39*	
Tobacco	65.3	86.4	92.0	8.9
Coffee	74.8	41.6	20.7	3.5
Tin/tin ore	87.2	45.5	18.8	5.7
Copra	16.8 [a]	31.0	24.2	6.5

[a] 1890-1903.

SOURCES: Calculated from LINDBLAD, J. Th. (1988): «De Handel tussen Nederland en Nederlands-Indië, 1874-1939», *Economisch en Sociaal-Historisch Jaarboek*, 51, pp. 295-7; KORTHALS ALTES, W. L. (1991): *Changing Economy in Indonesia Vol. 12a: General Trade Statistics 1822-1940*, Amsterdam: Royal Tropical Institute, pp. 69-75 and 151-64.

1870, Dutch sugar factories changed to processing domestic sugar beet, turning the Netherlands into a sugar exporter. The position of sugar in Dutch imports from Indonesia was taken over by coffee and since the 1890s by tobacco and tin.

Auctioning and processing coffee had made Amsterdam a major international coffee market. In the 18th century it handled coffee from the Middle East, not just from Indonesia. The expansion of the Amsterdam coffee market in the 19th century was based not just on Indonesian coffee, but also on the rapid growth of coffee imports from Brazil and later Central America. Moreover, during the 19th century Indonesia's superior Arabica coffee was increasingly shipped directly to overseas customers. Indeed, the fall in Indonesian coffee production in the 1890s due to a disease that ravaged the Arabica plantings did not affect the Amsterdam coffee market as much as the rise of other coffee markets, such as Le Havre in France.

Increasing tobacco imports from Java and the renowned cigar wrapper tobacco from Deli (North Sumatra) spurred the Dutch cigar industry in the late 19th century. The Dutch share in Deli tobacco exports remained 80-85 percent, despite increasing exports of Deli tobacco to the US. Although much tobacco exported from Indonesia to the Netherlands was actually transhipped to Germany, it is obvious that Indonesian tobacco sustained the Dutch cigar industry.

Until the 1920s most tin ore produced in the Indonesian islands of Bangka, Singkep and Belitung was smelted in Belitung and Singapore [14]. In 1928 the main tin producer *Billiton* established a subsidiary in The Netherlands to smelt tin ore. Although the venture started off processing Bolivian ore, after 1933 it turned increasingly to Indonesian tin ore. This arrangement mainly arose from the heavy involvement of the colonial government in the exploitation of Indonesian tin mines. But during the 1920s and 1930s increasing quantities of Indonesian tin ore were smelted in Singapore and later in the US, because the smelting capacity in both Indonesia and the Netherlands was insufficient to keep up with the rapid growth of Indonesia's tin exports.

The Netherlands, in particular Rotterdam, became a major contender in the international market for oils and fatty substances in the late 19th century. This was not directly related to the expansion of colonial rule in Indonesia, but rather to the rapid growth of demand in Europe for margarine, soap and detergents. Indonesian copra, and later also

[14] Kamp (1960).

groundnuts, soybeans and palm oil, were traded at or through the Rotterdam market. However, most Dutch imports of these products did not come from Indonesia, just as most Indonesian exports of these products did not go to the Netherlands. Dutch soap and margarine industries, in particular the two Dutch companies which amalgamated into the Anglo-Dutch *Unilever* in 1929, indeed processed Indonesian copra and coconut oil, but did not depend exclusively on imports from Indonesia [15].

Dutch interests were central for the development of the Indonesian petroleum industry. The exploitation of such oil reserves in Indonesia around 1900 and the refining of raw oil in the Netherlands provided the Royal Dutch Petroleum Company with a start to maturation into the multinational Anglo-Dutch Shell oil company. But in the 20th century the *Bataafsche Petroleum Maatschappij* (BPM, 1907), its Anglo-Dutch subsidiary, was only one of the many interests which both the Royal Dutch and Shell had throughout the world. The refineries of the Royal Dutch in Amsterdam and Rotterdam did not depend on operations in Indonesia, while most Indonesian oil was refined in the country itself [16].

These were Indonesia's most important export commodities. The country exported a wide range of other commodities which have been of varied importance to Dutch industries. For instance, Indonesia had a near-monopoly in the global production of cinchona bark. Since 1886 most of the bark was processed into quinine in Amsterdam, until the establishment of a similar plant in Bandung in Indonesia in 1897. Other products of minor importance to both Indonesian exports and Dutch industries are kapok, cocoa, spices, resins *etc.*

On the whole, some imports from Indonesia were of importance in the establishment of commodity trade and processing industries in the Netherlands. But it is difficult to maintain that the trade relations with Indonesia formed the base for the further expansion of such industries, as the decreasing shares of Indonesia in Dutch imports and of the Netherlands in Indonesian exports in Table 1 indicate. Section A in Table 3 gives a concise overview of the extent to which Dutch industry relied on imports from Indonesia in 1938. Such imports were not crucial to the development of Dutch industry as a whole. Indonesia only retained its importance for some Dutch industries, in particular the tobacco industry. The high shares of rubber, sugar and tea are deceptive, because most

[15] Wilson (1954), in particular volume 2.

[16] Lindblad (1989), Gabriëls (1990).

TABLE 3

The role of Indonesia in the composition of Dutch foreign trade, 1938

	Total *f mln.*	Of which from/to Indonesia	
		f mln.	%
A. Dutch import of raw materials:			
Stones, cement *etc.*	14.5	—	—
Chemicals	62.5	7.5	12.0
Fertiliser	34.8	—	—
Inflammable and lubricating oils	46.8	0.6	1.3
Timber	65.0	1.3	2.0
Yarn and fibres	88.0	1.7	1.9
Rubber	4.7	2.5	43.2
Hides and leather	28.4	3.2	11.3
Coal	52.5	—	—
Metals and ores	222.6	33.4[a]	15.0
Paper and paper products	19.9	—	—
Grains and flour	85.4	2.0	2.3
Oily seeds	98.8	12.1	12.3
Fodder	12.4	2.7	21.8
Raw sugar	5.5	4.1	74.5
Tobacco leaves	21.0	11.0	52.4
Coffee	15.6	4.1	26.3
Tea	11.3	9.8	86.7
Total of these	889.7	96.0	10.8
B. Dutch export of manufactures by industry groups:			
Food and luxury foods industries	233.7	9.5	4.1
Pottery and glass industries *etc.*	7.4	0.5	6.8
Wood processing industries *etc.*	105.5	11.6	11.0
Paper industry	22.2	2.0	9.0
Textile industry	77.8	34.0	43.7
Garments industry	3.2	0.5	15.6
Leather, shoes and rubber industry	13.0	0.7	5.4
Metal industry, shipbuilding *etc.*	228.9	35.8	15.6
Printing and industrial art	9.0	2.2	24.4
Total of these	706.3	98.1	13.9

[a] Of which tin ore and tin: *f*32.4 million.

SOURCE: Calculated from DERKSEN, J. B. D. (1946): «De Economische Beteekenis van Nederlandsch-Indië voor Nederland met Cijfers en Statistieken Toegelicht», in W. H. van Helsdingen and H. Hoogenberk (eds.): *Hecht Verbonden in Lief en Leed*, Amsterdam: Elsevier, p. 371.

Indonesian rubber, sugar and tea was exported to other countries. The Dutch rubber-using industry was relatively small, while sugar and tea were imported for domestic consumption.

TO SELL MANUFACTURES

Table 1 indicates that, except for the 1920s, the value of Dutch imports from Indonesia exceeded the value of Dutch exports to Indonesia, which suggests that Indonesia was more important to the Dutch economy for its supply of raw materials than as a market for Dutch manufactures. As noted above, the protection offered to the export of some manufactured products to Indonesia was important for the establishment and development of the Dutch textile and shipbuilding industries during the first half of the 19th century. This continued to be the case during the second half of that century, as Table 4 indicates for the textile industry.

During the first half of the 19th century, weaving was primarily a cottage industry in the Netherlands. Apart from the spinning mills, the export of textiles to Indonesia did not primarily benefit big capitalist entrepreneurs, as the economic theory of imperialism would suggest. The growth of textile production after 1850 was indeed based on the expansion of textile factories, producing yarn and cloth at the expense of the cottage industry. However, the expansion of the Dutch textile industry after 1850 was largely due to the growth of production for the domestic market, rather than for overseas markets [17].

Dutch textile producers lost their preferential access to the Indonesian market in 1874, but they maintained their share in the Indonesian market at around one-third through specialisation [18]. To Indonesia they mainly supplied sarongs and bleached textiles for the Indonesian *batik* (dyeing) industry. Textile imports from the Netherlands constituted one-third of Indonesian textile imports, the rest consisting of luxury textiles from Britain and unbleached textiles from Japan. This balance changed in the late 1920s, when Japan expanded its export of bleached textiles to Indonesia at the expense of Dutch producers. The Dutch share in Indonesian textile imports gradually fell to a low of 12 percent in 1932-35. The loss of markets was not acted upon until late 1933. The regulation of Indonesian imports

[17] De Jonge (1968), pp. 82-129, in particular pp. 117-20.

[18] Fischer (1981), p. 19; Wolters (1990); Sugiyama (1994).

TABLE 4

Role of manufactures in Dutch-Indonesian bilateral trade, 1874-1939

	Textiles	*Machinery*	*Metal goods*
A. Average shares of export to Indonesia in Dutch exports of manufactures:			
1874/1904	63.0	43.0	4.2
1905/1930	40.7	57.0	27.4
1931/1939	40.3	7.8	13.3
B. Average shares of the Netherlands in Indonesian imports of manufactures:			
1874/1904	51.5	62.5	65.0
1905/1930	31.5	52.8	36.1
1931/1939	20.4	31.1	13.8

SOURCE: LINDBLAD, J. Th. (1988): «De Handel tussen Nederland en Nederlands-Indië, 1874-1939», *Economisch en Sociaal-Historisch Jaarboek*, 51, p. 294 (note 47) and pp. 297-8 (notes 84 and 90).

through quota and tariffs indeed reserved markets for Dutch textiles, but that only started to take effect in 1937.

Hence, during most of the late-colonial period the trade policies of colonial Indonesia did not discriminate against textiles from third countries, and did not facilitate monopoly profits for the Dutch textile industry. Although textiles had a prime place in Dutch exports to Indonesia, the Dutch textile industry was not primarily dependent on Indonesia. For instance, Table 4 shows that most of Dutch textile exports did not go to Indonesia. In fact, most textiles were produced for the Dutch domestic market before World War II [19].

As noted above, the monopolisation of the shipment of government commodities during the Cultivation System benefited the Dutch shipping industry, thus re-enforcing the prominent position which Dutch companies had occupied for many centuries in international shipping. The industry suffered in the 1870s, when the privileged Dutch position in Indonesian trade was relinquished, and in the 1880s, due to the international economic crisis, but recovered soon after. Although Indonesia became an increasingly important node in the web of Dutch shipping lines during the 19th and 20th centuries, this web spanned the whole world [20].

[19] Kockelkorn (1989).

[20] De Jonge (1968), pp. 132-6 and 156-8; Huijts and Tils (1994).

The Dutch shipbuilding industry depended largely on the development of Dutch shipping. It also suffered in the 1870s, but several companies found relief through a growth of domestic demand for products from the metal, metal engineering and machinery construction industries. The shipbuilding industry bounced back after 1890, due to the general expansion of Dutch shipping as a consequence of the upswing in world trade. This is not to deny that increased shipping to and from Indonesia contributed significantly to the rapid expansion of the Dutch merchant fleet during 1890-1910. For instance, BPM alone ordered 150 ships from Dutch wharfs for the transport of oil during 1907-40.

Apart from the textile and shipbuilding industries, it is difficult to establish a direct link between the development of Dutch industry and colonial expansion, because since 1890 Dutch manufacturing industry entered a phase of expansion and diversification. As Table 4 indicates, the relation with Indonesia remained important up to 1930 for Dutch engineering industries, who flourished from investment in Indonesia. After 1895, the colonial government invested considerable sums in the development of infrastructure. Metal products were required for the construction of railways, bridges, harbour installations, etc. The Indonesian economy had been opened up to private investment in 1870, but it took until the 1890s before private investment started to grow. In particular capital-intensive industries in Indonesia (such as the sugar industry) required steam-driven processing equipment. During 1881-93 around 7.5 percent of the boilers in steam generators used in Indonesia had been made by companies in the Netherlands, but by 1910-12 this had risen to 30 percent, a time when more than 50 percent of orders for new boilers went to Dutch factories [21].

Table 4 indicates that Dutch companies lost ground in Indonesian imports of machinery and metal goods, although a clear preference for Dutch goods remained. We can only guess the reasons, because Dutch produce enjoyed minimal preferential treatment in Indonesia's foreign trade regime. It is likely that the colonial government preferred to order metal goods for the construction of railways and bridges in the Netherlands [22]. Another possibility is that capital-intensive companies in Indonesia were generally foreign-owned. Dutch company owners may have preferred products from affiliated Dutch industries. Furthermore, Dutch engineering

[21] Van Hooff (1990), pp. 237-38.
[22] Van Hooff (1990), pp. 238-41.

companies specialised in equipment for the processing of tropical commodities. For instance, the *Stork* company supplied installations for sugar manufacturing, which it not only sold to Indonesia, but to many other countries producing cane sugar, such as Cuba. In the 1920s more non-Dutch companies established subsidiaries in Indonesia, which may explain the growth of machinery and metal imports from Great Britain and the US, and the fall of the Dutch share.

Manufacturing exports to Indonesia were of some importance in the initial phases for a range of small Dutch industrial ventures in the 19th century. But, like the industries which initially depended on imports of Indonesian raw materials, most then diversified their overseas sales since the late 19th century, in the expansionary phase of such ventures [23]. As with the import of raw materials, by the 1930s Dutch manufacturing industry as a whole did not depend on sales to Indonesia.

After the failure of the World Economic Conference in 1933, increasing compartmentalisation of international markets and falling exports forced the Netherlands and Indonesia to explore the extent to which they could support each other. But the Dutch market was too small to absorb Indonesia's commodities, while the assortment of Dutch manufactures was too limited to satisfy Indonesia's import requirements. For instance, the main Dutch foreign exchange earners (horticulture and agriculture) had little to offer for Indonesia. In short, the two economies had grown apart and their products were not complementary. A system of imperial preferences, akin to the British Commonwealth, could not have had comparable results.

While avenues of greater cooperation were explored, observers pointed out that Indonesia and the Netherlands had grown apart and that foreign trade and payment policies had to conform to that state of affairs [24]. The interests in foreign trade policies were still formulated for Indonesia by the Dutch government, a situation which prompted the rise of an economic nationalism with the support of both Indonesians and Europeans in the colony.

Although difficult to specify, the net result of the regulation of bilateral trade through quota and licences has benefited sections of Dutch manufacturing industry: in particular Dutch textile industry, and to a lesser extent the fertiliser, light bulbs and cement industries [25]. However, the

[23] De Jonge (1968), p. 358.
[24] Wirodihardjo (1951), pp. 229-38.
[25] Wirodihardjo (1951), pp. 238-53.

preferential access of Dutch textiles to the Indonesian market was accompanied by a policy of import restrictions aimed at furthering the textile industry in Indonesia, despite the fact that Indonesian products competed with protected Dutch imports [26]. The overall trend of increasing import-substituting industrial development in Indonesia and growing integration of the Netherlands into Europe, was re-enforced when the German occupation of the Netherlands in May 1940 cut the colonial ties.

EXPORT OF DUTCH CAPITAL

The Netherlands has long been an exporter of investment capital. Such exports slowed down during the first half of the 19th century. This was to some extent due to the emergence of domestic investment opportunities during a hesitant first phase of industrialisation, but mainly by the rapid growth of investment in Dutch public bonds, fuelled by the costly Belgian war of secession in the 1830s. Still, even when domestic investment opportunities increased further after 1850, much Dutch capital found its way abroad, especially in the form of portfolio investments in Russian and Austrian public bonds and American and Russian railways [27].

There were investment opportunities in Indonesia, especially after 1870, but Dutch investors hardly seized them. During the 19th century capital formation in Indonesia was largely generated by public investment in infrastructure, financed with revenues from the Cultivation System and realised with corvée labour. Private capital formation in Indonesia was mainly initiated by Dutch private entrepreneurs, many of whom had started under the Cultivation System as contractors of the colonial government. Even after the demise of the Cultivation System in 1870, the stock of foreign capital in Indonesia only expanded very gradually. Exact data are not known, but the numbers of companies with limited liability status in Indonesia indicate significant growth only after 1890 [28]. This corresponds to the gradual establishment by the colonial government of preconditions for the operations of private enterprise in the form of infrastructure and a transparent legal framework.

Numbers of incorporated enterprises may be misleading, because most new ventures (apart from sugar factories) were not capital-intensive.

[26] Wirodihardjo (1951), pp. 131-96; Telkamp (1981).
[27] Jonker (1991). See also: Bosch (1948), pp. 1-23 and 59-70; Veenendaal (1996).
[28] A Campo (1996), p. 73.

Many of the sugar factories operated on the basis of short-term consignment-contracts with Dutch trading houses, which operated as banks. These houses supplied the required working credit on the condition that produce would be delivered to them. After the termination of their Cultivation System contracts, many sugar factories required funds to upgrade processing facilities and to expand the scale of production in order to be able to meet competition. After the 1880s many consignment-contracts started to include investment in fixed capital and thus involved a long-term obligation to sell produce to the trading houses. On the whole this meant a growing involvement of the big trading houses in the production phase. Gradually the original owners of the weaker ventures were bought out and the houses took control [29]. Ownership thus gradually changed from the Indonesia-based owner-operators to the Dutch shareholders in these trading houses.

Dutch entrepreneurs who started other ventures in Indonesia after 1870, such as plantations with tobacco or tree crops such as tea, coffee or chinchona, often raised investment capital in their own circles, rather than on money markets in the Netherlands. Banks were generally not interested in such ventures, either because of their inexperience with such crops, or due to risks inherent in agricultural enterprises, such as pests, diseases, weather and volatile commodity markets. Raising money on the Dutch stock market was often not an option, because stock market listings required a minimum of *f*500,000 subscribed capital. At that stage plantations could generally not meet this condition, because their capital requirements were modest compared to sugar factories. Investment was generally only required to access concessions, pay labour to clear the land, plant the soil and bridge the period until harvesting, not for expensive processing facilities.

If such ventures prospered, they started a transitional phase during which they repaid their debts and started to plough back profits through provisions for an accelerated depreciation of assets and the formation of precautionary reserves [30]. This phase may have taken more than ten years in the case of tree crops, which means that the first enterprises started this phase in the 1890s, rapidly growing in numbers after 1900.

After this phase, ventures may have entered an expansionary phase. Expansion was generally not financed with loans from Dutch banks on

[29] This account of events can be found in Helfferich (1914, 1916).

[30] This point elaborates the purport of Drake (1972).

the basis of accumulated assets in Indonesia. On the whole, the interest from Dutch capital markets in tropical ventures remained limited. Rather, self-made entrepreneurs in Indonesia financed expansion by incorporating their ventures. An owner-operator would form a syndicate with Dutch friends and/or a large trading house on the basis of a long-term consignment-contract. Shares were issued against the assets of the existing venture, which were brought into the new limited liability company. Shares were either issued for the expansion of operations or to buy out the original owner-operator who then retired.

The expansionary phase implied a shift from unincorporated proprietary enterprises to legally incorporated firms. Where the original owners were bought out, the ownership of the assets often changed from the previous owner-operators residing in Indonesia to free-standing companies in the Netherlands, and in some cases to the shareholders of the big Dutch trading houses. Companies became ventures administered by salaried managers, or specialised management agencies in case of smaller companies, rather than owner-operators. Moreover, after 1900 several large mining enterprises were established in the Netherlands for operations in Indonesia. Their shares were often floated on the Dutch stock market. The upshot is that after 1900 both the top management of Dutch ventures in Indonesia and the ownership of private enterprise in Indonesia passed to the Netherlands.

This increasing reliance of private enterprise in Indonesia on the Dutch capital market explains the fact that Dutch-owned companies formed about 75 percent of foreign investment in Indonesia. After 1870 entry into the Indonesian economy was not reserved to Dutch companies. The only formal obstacles were that legislation, such as the 1899 Mining Act, required limited liability companies operating in Indonesia to be registered in Indonesia or in the Netherlands. The 1870 Agrarian Law also stipulated that long leases could only be granted to Dutch nationals or to residents of Indonesia (since 1919 in East Sumatra) [31]. In effect this meant that non-Dutch companies had to establish subsidiaries in either Indonesia or the Netherlands, or use agencies. In short, Dutch companies may have found it easier to overcome institutional hurdles, because the legal systems in both countries were similar or because of the use of the Dutch language in Indonesia.

The fact that non-Dutch companies were not prevented from entering Indonesia became especially clear after about 1910, when many of them ventured into new sectors of the economy to seize opportunities which

[31] Hacco (1957), p. 196.

Dutch companies neglected, especially in petroleum, rubber and palm oil, and, since the late 1920s, in import-replacing manufacturing industries (such as Goodyear and the British-American Tobacco Company). Unlike Dutch plantations, these ventures were not mainly financed with re-invested profits, but with foreign direct investment (FDI). Direct capital inflows into Indonesia also increased after about 1910, due to the growing capital-intensive exploitation of mineral reserves by foreign enterprises, in particular in the oil sector. The growing involvement of such big foreign companies meant that in the late colonial era Dutch companies registered in Indonesia may have had the numbers, but not the volume [32].

Clearly, the nationality of Dutch companies in colonial Indonesia causes problems. Incorporated companies operating in Indonesia may have had been registered in Indonesia. But the gradual shift of ownership to the Netherlands, as indicated above, meant that companies were increasingly controlled from the Netherlands. Likewise, foreign subsidiaries may have been registered in Indonesia, but may actually have been under foreign control [33]. On the whole, the biggest «Dutch» companies operating in Indonesia were registered in the Netherlands, or were controlled by free-standing companies or shareholders in the Netherlands. The majority of small «Dutch» companies registered in Indonesia were controlled by Dutch nationals of Indonesian extraction, or by Chinese residents or ethnic Indonesians [34]. This is one of the problems which plagues the estimation of the stock of foreign, in particular Dutch investment in colonial Indonesia.

Another problem is that the accumulation of foreign-owned productive assets in Indonesia was based on relatively modest initial capital injections from overseas. The inflow of private capital during 1820-1938 indeed adds up to only about one-third of the estimated replacement value of foreign-owned productive assets in Indonesia in 1938, as shown in Table 5 [35]. Most of the expansion of incorporated private enterprise in Indonesia was therefore based on foreign entrepreneurship and financed with re-invested profits. Estimates suggest that on average one-quarter to

[32] Hacco (1957), pp. 202-7. Lindblad (1992, pp. 4-5) estimated that 58 percent of paid-up capital of companies operating in Indonesia was from companies registered in the Netherlands, 20 percent registered in Indonesia and 6 percent from Indonesian-Chinese companies.

[33] Hacco (1957, pp. 196-8) provides an overview of where plantations were registered in 1937.

[34] Korthals Altes (1987), pp. 142-4. On definition problems, see Lindblad (1991).

[35] Korthals Altes (1987), pp. 72-95.

TABLE 5

Stock of accumulated Dutch foreign investment, 1900-1938
(million guilders)

	1900	*1914*	*1938*
Foreign direct investment			
Indonesia	750	1,680	2,850
United States	20	340	690
Other	40	250	1,270
Total	810	2,270	4,810
Public bonds, Indonesia	45	170	1,200
Total portfolio investment	3,100	2,800	3,910
Total foreign investment	3,910	5,070	8,720

[a] Public bonds and unredeemed government-to-government loans.

Note: The data have been estimated from a range of different sources, which are not entirely comparable. They should be taken as indications of the order of magnitude.

SOURCES: Calculated from GALES, B. P. A., and SLUYTERMAN, K. E. (1993): «Outward Bound. The Rise of Dutch Multinationals», in G. Jones and H.G. Schröter (eds): *The Rise of Multinationals in Continental Europe*, Aldershot: Brookfield, pp. 65-66 and 92-93 (converted with current exchange rates); DERKSEN, J. B. D. (1941): «Berekeningen over het Nationale Inkomen van Nederland voor de Periode 1900-1920», *Maandschrift van het Centraal Bureau voor de Statistiek*, 36, p. 80; CALLIS, H. G. (1942): *Foreign Capital in Southeast Asia*, New York: Institute of Pacific Relations, p. 36; LEWIS, C. (1948): *The United States and Foreign Investment Problems*, Washington DC: The Brookings Institution, pp. 298-43.

one-third of company profits were ploughed back during 1925-38 [36]. Assuming that 75 percent of profits were remitted as dividends, it is possible to estimate the accumulated re-invested profits during 1820-1938 with data on remitted dividends and profits. The estimate indeed adds up to about two-thirds of the replacement value of foreign-owned productive assets in Indonesia in 1938 [37]. This estimate may be too low, because it assumes that profits were only ploughed back when dividends were remitted. It

[36] Only incomplete data are available. CKS (1930, p. 14), suggests that 30 percent of declared dividends were ploughed back in 1925, or 23 percent after taxes. Korthals Altes (1987, p. 41), suggests a much higher estimate of 37 percent in 1925 and an average of 26 percent for 1910-26. Prange (1935, pp. 91-92), estimated an average of 33 percent during 1925-30, while Geselschap (1949) estimated an average of 33 percent during 1928-39.

[37] Data in current prices from Korthals Altes (1987, pp. 72-95), accumulated as follows:

$$\text{Total} = \sum_{t=1820}^{1938} (1/0.75 - 1) \times \text{remitted dividend}(t)$$

is likely that profits were ploughed back regardless, especially when most ventures were still managed by the owner-operators. On the other hand, the estimate may be too high, because it does not take account of losses due to bankruptcies and liquidations. Still, both estimates indicate the tremendous importance of re-invested profits in financing the expansion of private enterprise in colonial Indonesia.

This helps to explain why Indonesia initially absorbed only small amounts of Dutch capital. Most Dutch overseas investment was in the form of portfolio investment in other parts of the world, as Table 5 indicates. Even by 1914 Dutch portfolio investment in the US was valued at *f*2 billion, in Russia *f*940 million, altogether much more than Dutch-owned productive assets in Indonesia [38]. The gradual transfer of ownership of companies in Indonesia to the Netherlands explains the rapid growth of the volume of Dutch FDI in Indonesia after 1900.

The biggest single category of investment capital transferred from the Netherlands to Indonesia involved the purchase of Indonesian public bonds by Dutch investors. These were popular, because they were guaranteed by the Dutch government. Indonesian public debt accumulated quickly during the 1920s, when the colonial government borrowed for investment in infrastructure, and the 1930s, when it borrowed to finance current expenditure, despite relentless pruning [39].

It is now possible to understand the somewhat odd situation that the colonial government had to borrow money abroad, despite Indonesia's trade surplus. The trade surplus reflected to a large extent payments related to the foreign ownership of the assets of private enterprise, rather than payments generated by the actual inflows of past FDI. Private enterprise had largely been financed with re-invested profits. These had remained unobserved, because they did not enter international financial exchange. Re-investment of profits had been necessary for two reasons. Firstly, because of the initial reluctance of Dutch investors to raise capital for ventures in Indonesia. Secondly, because there was only a very small capital market in Indonesia both during the 19th and the early 20th century [40]. Savings in Indonesia were low and exceeded by capital requirements by far, while banks in Indonesia were mainly involved in financing current operations of private enterprise. Consequently, the colonial government could not raise the required funds domestically and had to borrow overseas,

[38] Bosch (1948), pp. 46-8; Van Horn (1993), pp. 436-7.
[39] Tervooren (1957), pp. 74-125.
[40] Van Laanen (1980), pp. 31-3.

despite the fact that the Indonesian economy had a substantial trade surplus.

This section indicated that most Dutch capital invested overseas was not directed towards Indonesia. The share of Indonesia in Dutch foreign investment indeed increased from 20 percent in 1900 to 46 percent in 1938. This change was not mainly caused by a flow of FDI from the Netherlands to Indonesia, but rather due to: (a) the transfer of ownership of private enterprises in Indonesia from Indonesia-based owner-operators to shareholders in the Netherlands; (b) the increasing value of productive assets in Indonesia due to the accumulation of re-invested profits. The upshot is that Dutch holders of shares in private companies operating in Indonesia expected payment of dividends in the Netherlands. The next question is therefore whether the actual returns to Dutch investors were significantly higher than alternative investment opportunities.

PROFITABILITY OF DUTCH CAPITAL

It is often suggested that foreign investment in colonial Indonesia was extremely profitable and that the overseas remittance of such profits robbed the country of any developmental capital. Several authors have used the ratio of dividend payments and nominal share capital to suggest that Dutch investments in colonial Indonesia yielded super-normal returns. There indeed were companies which at times paid dividends of up to 200 percent, which may have given the impression of «exploitation». But often these were small companies operating very successfully in lucrative niche markets. They were able to reap windfall profits or high entrepreneurial premiums for a few years, until market forces eroded extraordinary dividend rates. Moreover, easy references to such cases ignore the fact that many companies did not pay dividends or went bankrupt.

Recent publications have used the registers of incorporated companies operating in colonial Indonesia to approximate average dividend rates, the results of which are summarised in Table 6 [41]. Although illuminating, it should be noted that the results are only based on the minority of companies which reported dividend payments. Moreover, Lindblad's data are

[41] These data refer to all incorporated enterprises in Indonesia, not only the foreign-owned ones. However, A Campo (1995, p. 65) and Lindblad (1991, pp. 206 and 211) maintain that dividend rates did not differ between companies with seats registered in the Netherlands or in Indonesia.

TABLE 6

Average dividend rates of incorporated companies in Indonesia, 1893-1938

Average		*Sample*		*Total*	*Source*
A. *Weighted* averages					
1889	10.5	(117	of	ca.400)	(a)
1900	11.0	(290	of	ca.1,300)	(a)
1913	17.5	(380	of	2,686)	(a)
B. *Unweighted* averages					
1918	17.5	(622	of	3,656)	(b)
1923	10.8	(453	of	3,288)	(b)
1928	17.9	(572	of	2,794)	(b)
1935	9.3	(402	of	2,108)	(b)
1938	9.9	(401	of	2,158)	(b)
C. *Unweighted* average					
1930	9.0	(all	of	2,838)	(c)

SOURCES: (a) À CAMPO, J. N. F. M. (1995): «Strength, Survival and Success: A Statistical Profile of Corporate Enterprise in Colonial Indonesia, 1883-1913», *Jahrbuch für Wirtschaftsgeschichte*, n.° 1, pp. 63 and 71; (b) LINDBLAD, J. Th. (1991): «Foreign Investment in Late-Colonial and Post-Colonial Indonesia», *Economic and Social Science in the Netherlands*, 3, p. 205; (c) LINDBLAD, J. Th. (1993): «Ondernemen in Nederlands-Indië, c.1900-1940», *Bijdragen en Mededelingen betreffende de Geschiedenis der Nederlanden*, 108, p. 709.

unweighted averages, which yield upwardly biased results due to the fact that very successful companies were often small. À Campo (1995) corrected his data on the assumption that non-reporting companies did not pay dividends, which brought the *weighted* dividend rate down to 4.5 percent in 1900 and 8.0 percent in 1913. Such a correction of Lindblad's (1991) data may generate *unweighted* averages of 3.7 percent in 1928 and 2.3 percent in 1940. These corrected dividend rates do not indicate super-normal profits. In fact, À Campo's corrected estimates of 5-8 percent are only 2-3 percentage points higher than the interest rate on public bonds. They do not differ much from the average estimates of 6-8 percent returns on equity of English companies operating in Great Britain and overseas during 1870-1913 [42].

Even if adequate average dividend rates could be calculated, we should keep the character of foreign investment in colonial Indonesia in mind.

[42] Edelstein (1982), p. 157; Davis and Huttenback (1987), p. 105.

Dividend rates do not give an adequate impression of the actual returns to foreign investment, because of the importance of accumulated re-invested profits. These are not reflected in the nominal value of equity capital, although they should be included, because they flow from decisions by investors to give up present for future gain, which is the main characteristic of investment. For this purpose estimates of the replacement value of foreign-owned productive assets in Indonesia are required.

Table 7 contains estimates of the actual returns to capital on the basis of approximations of this measure of the stock of foreign investment. The resulting ratios do not differ substantially from the standard discount rate of the Java Bank or the interest rate on debentures of the colonial government. This evidence suggests that the quest for investment outlets through imperialism and the expansion of colonial rule was not very successful in raising the returns to Dutch capital invested overseas. The returns to the actual amounts of foreign capital invested in Indonesia were not extraordinarily high.

The volume of foreign investment in Indonesia may have been high compared with neighbouring countries. But in per capita terms the countries of Southeast Asia were all minor recipients of foreign investment in an international context. For instance, the 1938 stock of foreign investment in Australia and New Zealand (8.5 million people) of US$4,450 million was higher than the total foreign investment of US$4,273 million in the whole of Southeast Asia (145 million people) [43].

Why did the colonies of Southeast Asia fail to attract more investment from overseas if profits there were so extraordinarily high? Why did the first Dutch entrepreneurs have to finance their ventures with capital from family and friends? The main reason is that ventures in colonial Indonesia were relatively risky, despite the presence of a sympathetic colonial government. Most were agricultural enterprises, which are by nature more prone to pests, diseases and weather conditions. Commodity markets proved to be very volatile during the period under consideration, especially during 1914-39. Many companies in Indonesia were successful, but many others did not pay dividends or went bankrupt. À Campo (1995, p.48) estimated that by 1930 only 41 percent of the companies established before 1890, 23 percent of companies established in 1890-99 and 32 percent of companies established in 1900-09 were still in business, either due to amalgamations or to bankruptcies.

[43] Calculated from Lewis (1948, pp. 298-43) and population estimates.

TABLE 7

Foreign capital stock and returns in Indonesia, 1900-1939

	Foreign investment			*Returns to foreign capital*				*Dis-count rate Java Bank*	*Inte-rest rate public bonds*
	Total direct invest-ment	*Total*	*Source*	*Paid divi-dends*	*Remitted dividends, profits, interest*	*Ratio*	*Ratio*		
	(million guilders)					*(percentages)*			
	(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(4/1)*	*(5/2)*	*(6)*	*(7)*
1900	729	773	(a)	24	30	3.2	3.9	4.5	3.0 [a]
1914	1,681	1,851	(a)	105	109	6.2	5.9	3.5	5.0 [b]
1922	2,650	3,500	(b)	174	242	6.6	6.9	3.5	6.0
1930	3,984	4,972	(a)	112	136	2.8	2.7	4.5	4.5
1937	2,554	4,097	(a)	173	230	6.8	5.6	3.0	3.0
1939	3,500	4,540	(c)		129		2.8	3.0	

[a] 1898.
[b] 1915.

Notes: The estimates of capital stock are very rough, but not likely to be too high. If capital stock was higher, the returns to capital will be lower.

SOURCES: (a) CALLIS, H. G. (1942): *Foreign Capital in Southeast Asia*, New York: Institute of Pacific Relations, p. 36 (converted with current exchange rates); (b) DE COCK BUNING, W. (1923): «Kapitaalbelegging in Nederlandsch-Indië», *Nieuw Indië*, 2, n.° 8, p. 6; (c) BROEK, J. O. M. (1942): *Economic Development of the Netherlands Indies*, New York: Institute of Pacific Relations, pp. 31-33; dividends, KORTHALS ALTES, W. L. (1987): *Changing Economy in Indonesia Vol. 7: Balance of Payments 1822-1939*, Amsterdam: Royal Tropical Institute, pp. 139-41, and DERKSEN, J. B. D. (1946): «De Economische Beteekenis van Nederlandsch-Indië voor Nederland met Cijfers en Statistieken Toegelicht», in W. H. van Helsdingen and H. Hoogenberk (eds.): *Hecht Verbonden in Lief en Leed*, Amsterdam: Elsevier, p. 373; remitted interests, profits and dividends, Korthals Altes (1987) pp. 89-95; interest rates on government bonds from CREUTZBERG, P. (1976): *Changing Economy in Indonesia Vol. 2: Public Finance 1816-1939*, The Hague: Nijhoff, p. 79; discount rate Java Bank, VAN LAANEN, J. T. M. (1980): *Changing Economy in Indonesia Vol. 6: Money and Banking 1816-1940*, The Hague: Nijhoff, pp. 88-91.

This may be hindsight, but foreign enterprise in Indonesia endured significant losses after 1929. The total of retained profits less losses is estimated to have been a negative *f* 1 billion during 1930-36, implying a loss of 20 percent of the total stock of foreign investment in colonial Indonesia [44]. Thereafter, the Indonesian economy suffered from the Japanese occupation (1942-45) and the war for independence (1945-49).

[44] Polak (1943), p. 66.

Both caused losses and considerable damage. In 1947 total damage to foreign enterprise was estimated on the basis of prewar replacement cost to be *f*2.2 billion [45]. Dutch colonial rule apparently provided no safeguard against such losses.

RETURNS TO THE DUTCH ECONOMY

Apart from the rather rough approximations of Maddison, mentioned above, there are no consistent long-term estimates of Indonesia's contribution to Dutch national income. An attempt to provide such estimates of the contribution is vitiated by the fact that Dutch balance of payments data are incomplete before 1925 and do not distinguish income from Indonesia from other foreign income.

De Jonge (1968, p.356) suggested a contribution of inflows from Indonesia on the capital account of 2-3 percent of national income during 1870-90, and 5 percent in 1890 if income from shipping and exports to Indonesia is included. Estimates for later years by Derksen and Tinbergen (1945) of the contribution of Indonesia to Dutch national income have retained authority in Dutch historiography. Table 8 contains Derksen's slightly revised and extended later estimates. It indicates that the direct and indirect contributions amounted to an annual average of 18 percent during 1926-29, 8 percent during 1932-35 and 14 percent in 1938.

This is not the place to comment extensively on the assumptions and estimating procedures which underpin the data in Table 8. One crucial assumption is the multiplier of 1.7 to approximate secondary income in the Netherlands (category B.4), which raises the total contribution to Dutch national income to impressive heights. Moreover, the data refer mainly to two exceptional periods in the economic relations between the Netherlands and Indonesia: the late-1920s and the late 1930s, when Indonesia experienced strong economic growth. Lastly, the data cannot be taken as the results of a counterfactual scenario simulating the Dutch economy without economic ties with Indonesia. It is likely that Dutch productive resources not employed in Indonesia would in that case have been employed elsewhere in the world. Part of the income they generated would have benefited the Dutch economy.

Still, even if only the categories A.1-4 are included, which relate to the employment of Dutch capital and labour in Indonesia, the contributions

[45] Fruin (1947), p. 47.

TABLE 8

The contribution of Indonesia to Dutch national income, 1926-1938

		Anual Averages		
		1926-29	*1932-35*	*1938*
A.	Dutch primary income from Indonesia:			
1.	Dividends and interest	257	76	155
2.	Management costs, pensions, *etc.*	49	21	29
3.	Private remittances	12	5	5
4.	Pensions public servants, furlough payments, *etc.*	26	27	26
5.	International shipping to and from Indonesia	85	35	63
6.	Dutch exports to Indonesia, 75% of total value	115	26	75
7.	Trade in tropical products and other items (rough approximation)	60	25	35
	Total	604	215	388
B.	Indonesia's contribution to Dutch national income:			
1.	Total national income of the Netherlands	6,000	4,700	5,150
2.	Primary income dependent on Indonesia	604	215	388
3.	Retained profits of Dutch companies in Indonesia (approximation)	50	0	40
4.	Secondary income dependent on Indonesia (70 percent of item 2)	422	150	272
5.	Total income dependent on Indonesia (items 2, 3, 4)	1,076	365	700
	Ibidem, as percentage of Dutch national income	18%	8%	14%
C.	Other data:			
	Income of Dutch nationals in Indonesia (approximation)	300	150	175
	Repayments of public debt from Indonesia	31	42	36

Note: Million guilders, unless indicated otherwise.

SOURCE: DERKSEN, J. B. D. (1946): «De Economische Beteekenis van Nederlandsch-Indië voor Nederland met Cijfers en Statistieken Toegelicht», in W. H. van Helsdingen and H. Hoogenberk (eds.): *Hecht Verbonden in Lief en Leed*, Amsterdam: Elsevier, p. 374.

to Dutch national income add up to 5.7, 2.7 and 4.2 percent respectively. If all primary income is counted, Indonesia contributed 10, 4.5 and 7.5 percent respectively to Dutch national income, which broadly compared to the 5 percent in 1890 mentioned above.

It is not possible to put this estimate in an international perspective, as similar calculations do not exist for other colonising countries. But perhaps it is relevant to note that in such context the Netherlands has always had a small economy. In 1929 the size of its economy was only 13 percent of that of Great Britain, and only 3 percent of that of the US. Due to the lack of natural resources relative to the size of its population, the Dutch economy was very open, with total foreign trade (imports and exports) being 75 percent of national income in the 1920s. This means that income from foreign trade and related economic operations overseas was bound to be relatively important to the Dutch economy.

CONCLUSION

Neither the Hobson-Lenin thesis, nor later neo-Marxist interpretations are very helpful in assessing the economic relations between the Netherlands and Indonesia during 1870-1940. Apart from the fact that the evidence for the key claims in these approaches is thin, their basic shortcoming is that they provide a static explanation of what was in fact a dynamically changing bilateral relationship.

Based on Amsterdam's function as an entrepot market, trade relations were strong in the 19th century, even if the volumes of trade of both countries remained relatively small. With Indonesia's economic development, it became increasingly obvious that the merchandise of the two countries was not complementary. Moreover, the development of international transport and communications eroded the function of the Amsterdam market. Bilateral trade relations declined, and the emphasis shifted to financial relations. The main reason for this shift was that Indonesia's capital requirements outstripped its savings. In a way, the existing ties between the two countries gave Indonesia privileged access to the well-endowed Dutch capital market. However, the initial investment flows from the Netherlands to Indonesia were small, partly because private investment in Indonesia was risky, partly because there were ample alternatives at home and elsewhere abroad for Dutch investors. It should therefore not be surprising that the returns to Dutch capital in Indonesia were on average not much higher than returns from other alternatives.

That does not mean that the Dutch economy did not gain from its economic relations with Indonesia. It is difficult to imagine that Dutch productive resources would have been committed there if that had not been the case. In fact, the Dutch economy relied to an increasing extent on the revenues from colonial Indonesia during the 1920s. This was caused by the fact that Indonesia did not occupy a prime position in Dutch foreign investment around 1900. Successful Dutch entrepreneurs in Indonesia used their profits, rather than new FDI, to depreciate assets, accumulate reserves and expand ventures. In this way the value of Dutch assets in Indonesia increased without substantial FDI inflows over the years. The holders of shares in such ventures generally resided in the Netherlands, which generated a flow of capital income from Indonesia to the Netherlands. This flow peaked in the 1920s, when total direct income from Indonesia accounted for a considerable 10 percent of the small Dutch economy.

This does not underline the Leninist adage that colonising capitalist countries are so dependent on overseas investments that their economic systems cannot be sustained without them. Dutch economic recovery after World War II and after Indonesia's independence in 1949 proves that such notions are untenable.

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THE SIGNIFICANCE OF THE FRENCH COLONIAL EMPIRE FOR FRENCH ECONOMIC DEVELOPMENT (1815-1960)

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In May 1940, among panic-stricken ministers and politicians, General de Gaulle was virtually alone to reflect and proclaim that France was not vanquished as long as it retained its colonial empire, which would serve as the springboard for France's future liberation and status as a world power. Not many of his contemporaries shared his conviction, and his loneliness testifies to the detachment of public opinion and politicians vis-a-vis an empire which in extent ranked second only to the British. In spite of the headlines, newsreels, slogans, colonial exhibitions and propaganda, most Frenchmen would have probably agreed that, over the years, the mother country had spent more on its colonies than it had received.

The imperial venture had started a little over a century before. In 1815 France had been virtually stripped of all her overseas possessions by Britain [1]. Thanks only to Castlereagh's benevolence and Talleyrand's skills did the UK Government in the aftermath of the treaties of 1814-5 return a few islands and patches of land to French sovereignty (Guadeloupe, Martinique, Bourbon (Réunion), French Guiana and Senegal).

The conquest of Algeria, which started in 1830 constituted the resumption of France's imperial ambitions. Colonial expansionism gathered momentum under Napoleon III when French expeditions set foot in Indochina, Africa and —though the attempt failed— in Latin America. By 1870 the French clearly lagged behind the British. But the loss of Alsace-Lorraine gave a new impetus to colonial expansionism as well as employment to an army buoyed by the newly-adopted conscription. From 1880 to 1914, French overseas possessions were multiplied by a factor

[1] The western part of the Island of Santo Domingo had become independent under the name of the Haitian Republic in 1804 after a successful slaves' revolt.

of twelve in area (from one to 12 million square kilometers), their population reached 50m-odd. Like its British counterpart, the French empire included territories with varying legal status and links to the mothercountry. There were outright colonies subjected to semi-military rule; protectorates in Tunisia, Morocco, Laos and Cambodia, and «départements», resembling the standing enjoyed by British dominions. After World War One, the Empire was further consolidated by the mandates bestowed by the League of Nations on former German and Turkish dependencies (see table A1 in the appendix).

The building of this political edifice must have reflected the strength of imperialist ideology in France during the late 19th century. But by most accounts, neither the government nor public opinion were very enthusiastic about the adventure. «From 1880 to 1930 a minority of die-hard colonialists acquired and occupied a large colonial empire on behalf of a non-committed majority of the French people» (Marseille, 1984b, p. 367). The tide turned, apparently, with the onset of the depression of the 1930s and was carried forward by mounting isolation in Europe. Paradoxically the French started to behold their colonial empire with growing interest and affection at a time when independence movements were already taking hold in the subjected lands. The main questions to answer are: could the French have made better use of the possession of a large overseas empire before the 1930s and did they, conversely, commit themselves too far afterwards, when it was becoming clear than the ties between ex great powers and their colonies were likely to be soon severed?

1. THE COST OF CONQUEST AND SUBSEQUENT COLONISATION

Various attempts have been made at quantifying the cost of empire-building for the mother country. Despite the fact that tracing expenditures is made difficult by the changes to governmental accounting procedures, we have a fairly good idea of how much the French government spent on military conquest. For civilian expenditure, by contrast, the picture is blurred by the dispersion of accounts among different ministries (according to the so-called «small parcel technique» [2]). All assessments so far have been made on the basis of treasury issues and the question

[2] A budgetary device used by cabinet officials to ward off debate among and, if possible, notice by legislators.

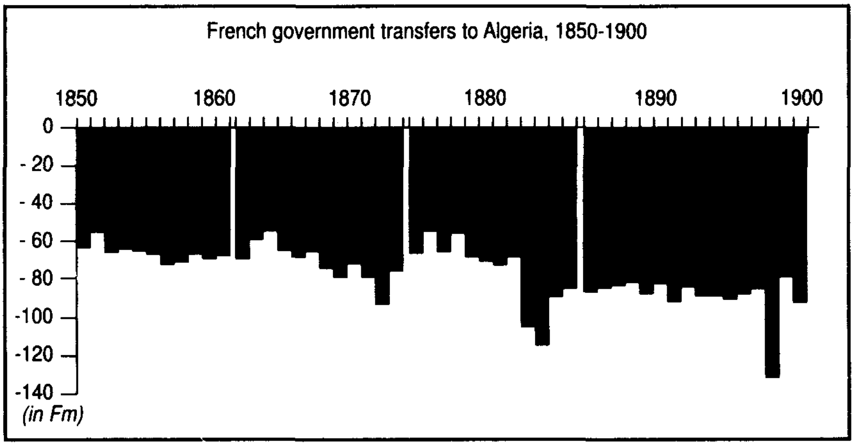
remains open as to how much the colonizers managed to extract from subjected indigenous populations to pay for their civilising mission. A preliminary distinction must be made between Algeria which was the first overseas territory secured by France after 1815 and the other territories, in Africa and Asia which were brought under French rule much later.

1.1. *Algeria*

The conquest of Algeria took more than 60 years to complete, but the major thrust occurred under the July monarchy (1830-48) and the beginning of the Second Empire (1851-70). For this period, Algeria represented always over 50% of total colonial expenditures by the French government, the bulk being assigned to military upkeep and railway construction and operation. Net transfers were of the order of F 60-80 million annually, as is seen in figure 1. The official aim of placing the three Algerian *départements* (districts) on the same footing as France's other 87 in 1880 implied that Algerian public finances were integrated into the central government's budget as of 1901.

Military expenditure represented essentially outlays for final consumption in the form of pay and services for the rank and file of the army and navy units stationed in Algeria as well as the purchase of goods necessary for their upkeep and maintenance. Civilian expenditure, by contrast, included some degree of investment. To be sure the aggregated figures consist of labour costs as well as indirect «capital formation». Labour costs and intermediate consumption tended to become more important as time went by, and (as can be seen in table 1), the major investment effort in terms of outlays was made during the Second Empire and at the beginning of the Third Republic. Investments had essentially to be made in public works and infrastructure: roads, digging of wells, building of dispensaries, etc. But it also included massive subsidies to rail or sea transport companies. After the construction by the army of the first strategic railways, and several failed attempts by concerns set up locally, the government entrusted the PLM, France's then major rail carrier, with the building of trunk lines in Algeria. But the PLM's subsidiaries had to be bribed in the same way as the parent company had been on the mainland. Apart from the initial grant (so-called *«dépenses de premier établissement,»* typically financed by the government), the treasury had to guarantee the returns on railway bonds (at a minimum of 5% per annum). According

FIGURE 1



to Bobrie (1976), the cumulated subsidies amounted to F131m to the PLM and F360m for other railway companies for the period 1865-1900.

Who in the end benefited from these investments? There is strong suspicion that public involvement served first the interests of those with a stake in the colony's economy. In the case of Algeria, numbers involved are rather large because of all French territories, it is the only one to have attracted «massive» immigration (a total of 0.6m persons between 1830 and 1914). And in this respect, the improvement of transport facilities certainly allowed small plantation owners to reduce the cost of exporting their produce and guaranteed the geographical mobility of residents inside

TABLE 1

Distribution of public expenditure in Algeria by decade, 1850-1900

(in Fm)	*Civilian*	*In %*	*Military*	*Total*
1850-60	99.5	47.0	112.2	211.7
1860-70	162.2	57.5	119.9	282.1
1870-80	162.1	50.8	157.0	319.1
1880-90	196.7	43.6	254.5	451.1
1890-1900	160.5	31.7	345.8	506.3
Total	781.0	44.1	989.3	1770.3

SOURCE: Bobrie, 1976, p. 1231.

the colony. However, some groups seem to have profited more than others from the government's investment in infrastructure in Algeria. Research into the comparative returns on mining and railway companies are in process.

1.2. *Other dependencies*

As in the case of Algeria, data on colonial expenditure tend to be scattered in budgetary documents. While the bulk of expenditure for the conquest and subsequent colonisation of overseas possessions was incurred by the Colonial ministry, the War and Navy ministries in fact carried a large share of the burden. Of the total outlays on the formation of the French colonial empire between 1850 and 1914, around 67.7% was allocated to military operations. Military campaigns figure prominently because they were financed by special budgets (under the heading of «extraordinary expenditure») that had to be approved by Parliament. Each of France's acquisitions between 1850 and 1914 signals a rise in the military expenditure by the French government (see Table 1 in the appendix for the chronology of French conquests). The conquest of Cochinchina (Southern Vietnam) in 1853 cost F135m, Tonkin (Northern Vietnam) F346m, Tunesia in 1881, F133m. In addition to Ministry of War's disbursements, the Navy also spent around 5% of its operational budget

TABLE 2

Civilian government expenditure in the colonial Empire, 1850-1913

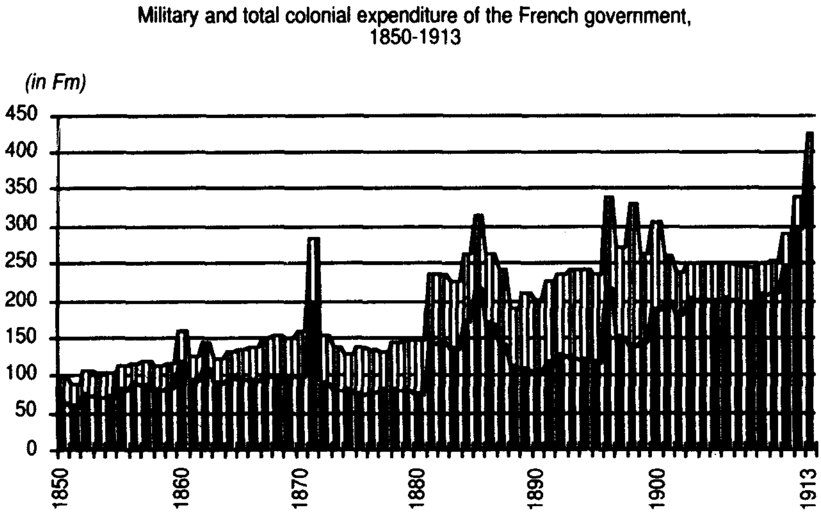
	(1)	*(2)*	*(3)*	*(4)*	*(5)*
1850-9	164.8	15.3	95.7	80.4	8.0
1860-9	161.3	70.5	251.6	159.5	18.0
1870-9	255.0	94.7	320.6	166.4	22.5
1880-9	351.2	127.6	545.9	194.7	23.6
1890-9	561.7	165.5	643.4	164.3	25.1
1900-13	154.8	245.8	266.9	15.7 *	14.7
Total	**1648.8**	**674.4**	**2424.1**	**781.0**	**19.1**

* From 1901 the three departments of Algeria acquired their own budget.

Legend: (1) personnel (incl. wages and debt payments); (2) subsidies and transfers; (3) public investments; (4) of which made in Algeria; (5) investment as a % of total expenditure.

SOURCE: Bobrie, 1976, p. 1239.

FIGURE 2



Source: Bobrie, 1976, p. 1233

on military expeditions. But this is surely an undervaluation since it doesn't include the bills for pay.

As far as civilian expenditure is concerned, from the beginning the French government pursued a policy geared to making its newly-acquired colonies financially self-supporting. Despite this doctrine and the creation of the «federal budgets» (for Indochina in 1899, Western Africa in 1905 and Equatorial Africa in 1910), the colonies continued to depend, to some extent, on injections from central government.

As far as overhead expenditure is concerned, a small yet growing number of civil servants were after the turn-of-the-century reform, paid from local taxes. For infrastructure, as in the case of Algeria, the central government had to supply the initial impetus in transport, communications, public health and education. In addition, there were an array of subsidies to transplanted businesses from the home country.

Investment remained generally low in the rest of the overseas empire. French authorities encouraged the local government to rely on public loans, some of them subsidised. According to Bobrie (1976), between 1880 and 1913, the Ministry of the Colonies disbursed some F156m in various forms of assistance, the Ministry of Public Works, F288m. As can be easily assessed, these outlays were dwarfed by the outlays on Algeria.

On the whole, France secured her colonial empire on the cheap. Despite a visible upturn after 1880 (corresponding to the conquest of Tunisia), the French government always allocated less than 7% of its budget to colonial expenditure between 1850 and 1914 (a 6% average over the 63 year period). Even military expenditure in the empire never exceeded one third of France's budget for the army and navy.

Such were the major costs incurred by the French government during the «formation period» of the colonial empire. Law and order expenditure, however, escalated after World War Two, especially after 1949. Not surprisingly the effort was greater in those parts where the government —as well as private enterprises— had invested the most: Indochina and Algeria.

2. THE EMPIRE AS ESSENTIAL TRADING PARTNER

Among the benefits, the French economy is presumed to have drawn from the possession of a large overseas empire, the question of trade relations figures prominently. How far did the Empire contribute as a supplier of materials and commodities to the home country, and conversely as a purchaser of French-made goods? Did the trade balance favour home industries or, alternatively did it weaken French competitiveness? In other words did the «colonial system» (elsewhere known as «imperial preference») work to the benefit of its own promoter?

2.1. *The «colonial system» as a virtual reality?*

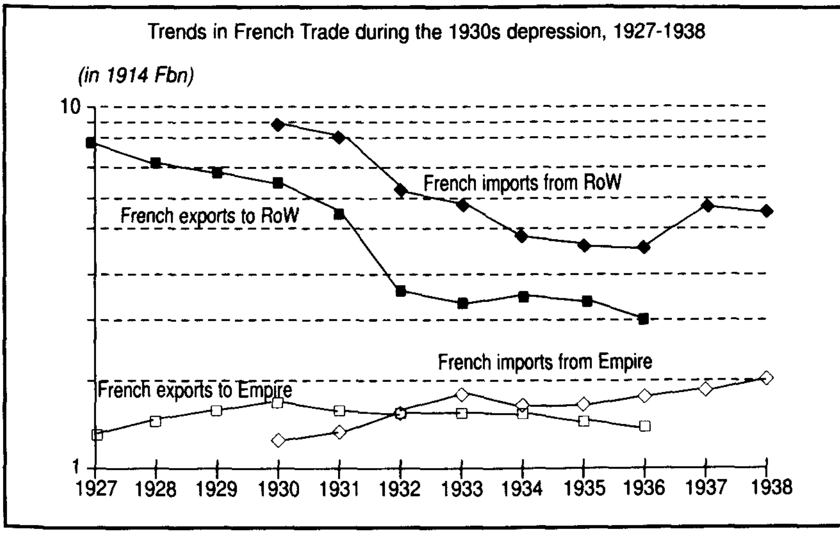
There is disagreement as to whether colonial trade brought a net contribution to French economic development. The contention that the colonial markets were not only «unnecessary but also embarrassing» has been made repeatedly. Behind this statement lies the classical conviction that it pays for a relatively industrialised country to trade with rich partners rather than with poor colonies. Any counterfactual model endeavouring to assess the impact of the close commercial association between France and her empire must take a long-term view. The conquest of a large ensemble of overseas possessions created a situation that in turn modified the initial set-up of economic incentives for traders and producers alike.

For a long-time popular wisdom held that the empire played a negligible part in France's external trade. Until 1913 it represented only a fraction of its volume, hovering around the 10% before 1913, reaching 14% in 1928. Only the experience of the worldwide depression in the thirties and then wartime disorganisation promoted the empire to France's first supplier and purchaser (albeit amidst considerable impediments). The country's commercial partnership with its empire was therefore and at least in part, an artificial one. That is why the Jeanneney report of 1963 among others denounced the «illusions of the franc-zone».

Against this pessimistic view, another interpretation of commercial trends stresses the *strategic* advantages that France eventually obtained from imperial trade. As early as 1896, the empire had become as essential a trading partner as Germany and the UK. From 1924 onwards it stood as France's second trade partner in the world and rose to first place after 1948. Moreover this role is fully revealed if one takes into account ratios of trade volume per capita when weighing the empire's importance as against the rest of the world: Its inhabitants purchased more from France and likewise supplied more than any other nation. Furthermore it exhibited a stronger (as well as more even) growth over the long-run than other markets: Between 1880 and 1958 exports to the empire grew at an average 3.8% per annum, while the secular trend of exports to the rest of the world increased at a rate of 1%. Imperial trade came to play a «balancing role», «slowing down contractions» but at the same time moderating expansionary booms in French overseas trade.

This is especially perceptible during the depression of the 1930s (figure 3). While French trade with the rest of the world virtually collapsed (by 65.8%), the overall contraction in trade with the Empire was negligible (-1.7%). After World War Two, and especially after the first GATT agreement (1949), the intensification of trade flows across countries and continents of the industrialised world, progressively shrunk the relative size of imperial markets. To be sure these still played an important role in supplying key necessities (especially foodstuffs in the immediate war aftermath) to French consumers and provided outlets for the surviving French firms (e.g. in 1944 exports to the empire totalled F2.4bn against F2.2bn to the rest of the world). In the short run, in many cases, imperial markets sustained vital economic activities both on the input and output sides. In the long-run, however, it created or reinforced distortions in the French structure of production.

FIGURE 3



2.2. *A trade cycle stabiliser?*

Did the Empire always absorb a sizeable share of French exports and did French businesses weave privileged ties with customers in the empire? Did these relations influence the structure of the French «commodity mix» over time?

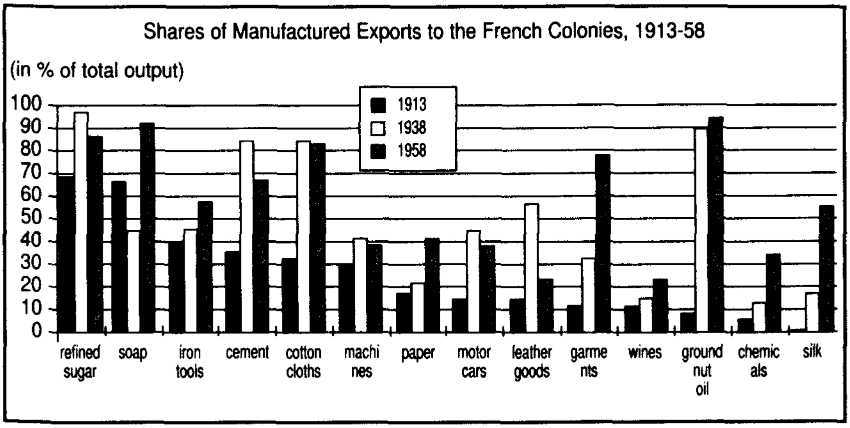
At first sight French colonies provided over the long-run a whole range of stable (and solvent) markets which «cushioned» the ups and downs of the commodity flows between countries, especially during the interwar period as the crisis brought about mounting protectionism. The problem is that of path dependence: once purveyors of trade had retreated onto the «safe» imperial markets, they found it more difficult, after the international liberalisation of world trade, to look for other, but more competitive markets, and thereby reduced their incentive to innovate.

According to Marseille (1984) the empire was promoted to first among France's customers just before the 1929 financial crisis. Until the late 1920s only a handful of industries relied on imperial markets. The discontinuity can be dated to the «formation period» of the empire; between 1880 and 1898. While rest-of-the-world exports were stable in value (in an overall deflationary context), exports to the colonies had doubled in value. Many businessmen and politicians perceived that the country's colonies offered the outlets that Europe's «saturated markets» could not longer offer. As Premier Jules Ferry then put it: «[Our] colonial policy is the daughter of [our] industrial policy.» Indeed French exports to the empire were by then heavily skewed towards the staples of the first industrial revolution: cotton cloth, semifinished iron bars and plate, steam engines, tubes and wire goods as well as beer and candles. Before 1914, «France exported more sesame oil than rails, more lard barrels than engines, double the amount of leather gloves compared to steel and as much candle wax as iron and steel combined» (Marseille, 1984b, p. 37). From the beginning therefore French exports to the Empire were dangerously «locked into» manufactured staples. The cotton industry, the metal trades, spirit-making and sugar refining which represented 42.6% of manufacturing value-added sold 40% of their output to the empire.

Ironically other countries «benefited» as much if not more from French colonisation with regard to trade. In the decade before 1910, and despite tariff barriers imposed since 1892, 53% of French colonial trade was with the rest of the world. Trade flows between the colonies and France's rivals were longer than those with the home country (Brunschwig, 1960, p. 99). Besides, until the upturn of 1906, the colonies ran substantial deficits with the rest of the world (F15m between 1894 and 1906). The resumption of colonial exports after 1906 balanced the accounts and released some currency earnings. Those were, however, short-lived. The disruption of world trade following the outbreak of World War One eroded those meagre gains.

As result of the reallocation of trade flows in the 1930s, home suppliers of staples maintained their dominant position while other associated trades joined the club. The «colonial party» thus gathered the representatives of various sectors which soon coalesced into a powerful interest group with influential politicians on their payrolls (Andrew & Kanya-Forstner, 1974). By 1958, while exports to the rest of the world finally regained their pre-depression (1927) peak, the export volume index to the French Union (as the empire was now known) had been multiplied by a factor of three. By that date, however, it was becoming clear that the colonies served as «dumping ground» for traditional home industries' surpluses: such an outlet was not only unnecessary, it was illusory in so far as it operated to discourage the movement of French firms into more competitive and innovative fields, especially capital goods.

FIGURE 4



2.3. *A safe reservation?*

Imperial propagandists and critics of imperialism claimed likewise that the French exploited (or should have been in a position to exploit) their empire's natural resources and secure their inputs at costs lower than world market prices. Was this the case?

As early as 1914, French colonies had become essential suppliers of raw materials for domestic key industries. Apart from tropical produce, several sectors came to depend on colonial supplies including: sugar refining, chemicals and non-ferrous metallurgy. In addition, import trade between France and its colonies exhibits the same secular growth trends as for exports, especially after 1930. While imports from the rest of the world recovered their 1930 level only in 1958, those coming from the Empire increased by 75% during the same interval.

At the beginning of the period the flow of goods from the empire took a long time to gather speed. The Great Depression at the end of the 19th Century did not stimulate any growth in imports that occurred later in the immediate prewar boom (1906-13). In the 1920s furthermore, imports increased drastically. After 1922 the Empire occupied the second place among France's suppliers, just behind the USA, and in 1928 took first place. The growth of imperial imports both in the 1930s (+5.5% per annum) and in the first postwar 1945-54 (+6.5% as against 4.8%

with the rest of the world) remained strong. These trends must be evidence surely that the empire supplied France with inputs without which the economic performance of the mother country could have been restrained? In particular abundant supplies from the empire enabled the domestic economy to save on hard currency earnings (or gold reserves) in order to pay for necessary imports. During the postwar decade when France was confronted with the «dollar gap», imports from the Empire were doubly valuable as they supplied franc-denominated primary products for French industry [3]. By drawing most of her imports from the *zone franc*, France was able to relieve demands on her hard-currency earnings.

The question of prices is an intricate one as this potential gain in monetary terms must be weighed against losses incurred because of price differentials. While imperial imports relieved immediate pressures on France's balance of payments' position, they also reduced the purchasing power of domestic consumers and pushed up the price of French exports, thereby adding future pressures on the balance of payments. A random review of prices in October, 1956, shows that «tropical products from French West Africa cost 21 to 50 percent more than comparable imports from the British West Indies or the Belgian Congo» (Poquin, 1957, p. 97). Official estimates put the consumers' annual bill for the colonial system in the mid-50s at about F60bn. This raises the question as to whether and to what extent imperial preference on imports determined the development of industries which could make use of these imports, to the detriment of others. These imports directly (through customs duty exemptions and price support measures to export industries) and indirectly (through subsidies to shipping companies) partly financed by the government, created a «vicious circle» of «artificial» (which were really loss-making) activities prospering at the expense of the rest of the economy.

2.4. *Balance of trade and balance of payments*

Further hints to the existence of growing and inefficient biases in favour of colonial trade emerge from trade and payment balance accounts. As long as imports and exports remained in balance until the depression of the 1930s, such effects must have been limited. Thereafter the French trade balance with the empire was, except for the depression years 1932-9,

[3] By that time colonial currencies were multiples of the franc and freely convertible to it.

almost continuously in surplus (see figures 3 and 5). This had been true even before World War One. The size of this surplus varied but it went up in the postwar period. In 1952 when the empire absorbed 40% of France's exports, the cover was 161%. With the rest of the world France ran a persistent trade deficit after the war, largely because of reconstrution and domestic inflation, which undermined the competitiveness of French exports (Carré *et al.*, 1975, p. 370-9).

TABLE 3

The French trade balance with the Franc zone and the Rest of the World in 1938 and 1956 (in 1938 Fbn)

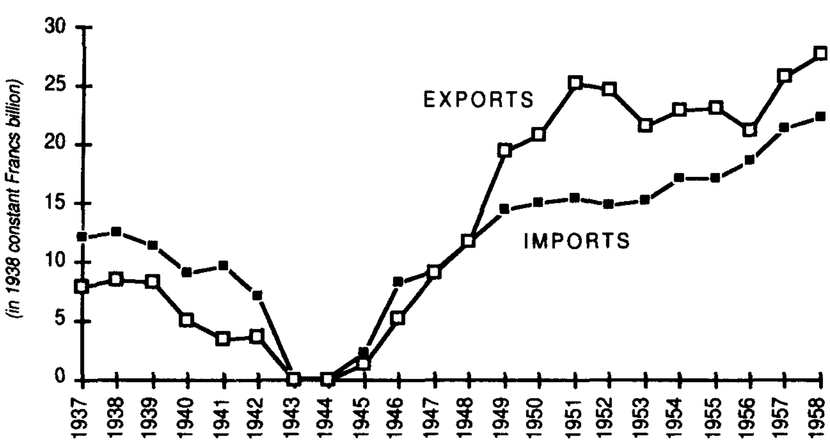
	Imports		*Exports*	
1938	*RoW*	*F-zone*	*RoW*	*F-zone*
Foodstuffs	3.6	10.0	2.8	1.6
Fuel	8.7	2.2	0.4	0.1
Raw materials and semi-finished	167	2.2	12.2	2.0
Consumer goods	2.4	0.2	5.0	3.7
Capital goods	2.2	0.05	1.8	1.0
Total	**33.6**	**12.5**	**22.2**	**8.4**
Balance	**−11.4**	**−4.1**		
1956	*RoW*	*F-zone*	*RoW*	*F-zone*
Foodstuffs	7.5	13.6	5.4	3.8
Fuel	13.7	0.1	2.9	1.2
Raw materials and semi-finished	28.7	4.8	22.7	4.3
Consumer goods	3.5	0.1	7.2	8.3
Capital goods	7.8	0.05	6.1	3.5
Total	**61.2**	**18.7**	**44.5**	**21.1**
Balance	**−16.7**	**+2.3**		

SOURCE: INSEE, *Annuaire Statistique 1966, p. 351.*

In this context, colonial markets supplied a «liferaft» for selected French industries, specifically traditional small-scale, high-cost firms. It allowed them «an opportunity to remain backward» (Fitzgerald, 1988, p. 381). Wary of world markets, they were typically reluctant to cut costs and engage in international competition. The persistence of empire «crowded out» more productive forms of resource allocation; within the empire it pushed

FIGURE 5

Value of French imports from and exports to the Franc Zone, 1937-58



Source: INSEE, 1996, p. 349; INSEE, 1988, p. 286.

up prices and production costs. This in turn rendered colonial exports less competitive with the rest of the world and, via the circular nature of the 'colonial system,' pushed French domestic inputs (and therefore production costs) further up. The franc zone constituted a «hothouse economy», thriving on imperial preference and exchange controls that could only crumble if and when these and government subsidies were to be removed.

After World War Two, the country accumulated a surplus on colonial trade for eight of the ten years from 1945 to 1955 [4]. In face of the mounting trade surplus with the franc zone (several hundreds billions francs between 1945-55), several astute observers started to envision the possibility that the colonial system might be back-firing and to ask «how are the colonies paying for this accumulating deficit?» In fact, it was becoming clear that

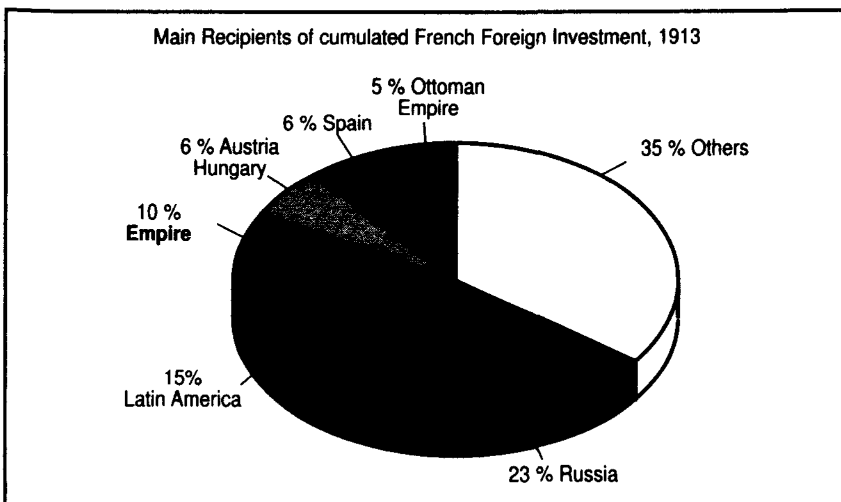
[4] Moreover, the supply of shipping and connected services was biased in favour of French firms and strengthened the balance of invisibles on current accounts. «Control of colonial markets thus delivered a payoff not restricted to merchandise exports alone» (Fitzgerald, 1988, p. 377).

France's trade surplus with the empire was balanced by an ever-increasing flow of French public funds into the colonies.

3. CAPITAL DIVERSION? INVESTMENT IN THE COLONIAL EMPIRE

In 1880 cumulated French foreign investment was of the order of F14bn; by 1913 it had increased by 175%, totalling F38.5bn [5]. At this date two thirds of traceable investment flows were going to Russia, The Near East and South America which accounted for only 14% of French exports, while the French empire came behind such heavy weights, with 10% of the cumulated stock of capital invested overseas. Did the empire therefore constitute, like the imperialism literature supposed, a privileged preserve for French financial interests? And if so, is the reason behind these flows that the rate of return on investment in the colonies was particularly high? Finally, did the home government play a significant part in directing or supplementing private funds with public participations?

FIGURE 6



[5] Still far behind the capital stock invested in the British Empire of F100bn (or £4bn).

3.1. *A privileged preserve for French investors?*

There is a measure of uncertainty when we attempt to assess investment flows between one country and another. Of the many pitfalls, that of the nationality of the original investor is the most acute. A London financier may very well place his funds on the Paris stock exchange. With these restrictions in mind, one must attempt to make first some crude measurements of capital flows between France and her colonies.

Before 1914, French investment must have been of the order of F4bn, divided between the holdings of 200 «colonial companies» (for 2bn), public funds (1.2bn) and loans issued by local authorities in North Africa (0.8bn). Marseille contends the total must have been higher because the present figures are heavily skewed in favour of Algeria (which would have accounted for three quarters of the total). Thus this author proposes to reevaluate the pre-1939 estimates on the basis of a Vichy government survey of 1943 [6] (table 5).

TABLE 5

French cumulated investments in the French empire, 1914-58

(in 1914 F billion)	*Private issue*	*Government loans*	*Public investment*	*Total*
Ante 1914	1.97	2.10	2.42	6.49
1915-29	1.62	0.67	0.23	2.53
1930-39	0.80	3.39	0.54	4.73
1940-58	1.99	—	10.00	11.99
TOTAL	6.38	—	19.36	25.74

Despite the underlying switch from long-term to short-term securities, the post World War One period, represents the «golden age» of colonial investment. In the 1920s colonial companies issued 70% of the total equity put on the French market (against 25% in 1913). Between 1914 and 1929, the stock had increased by 80%, representing 40% of French foreign investment. But this «success» was in part illusory. Pre-1914 French holdings abroad had been reduced by about 50% as a result of the war and the default of Soviet Russia, while cumulated productive investment from private sources remained desperately low (3.6bn in 1929, out of a

[6] Postwar estimates are drawn from League of Nations international accounts.

total outflow of 9bn). Investment in the empire was also clearly limited to a small number of subscribers who, moreover, faced a narrower range of opportunities. With the onset of the financial world crisis in 1929, private investment crumbled to a dismal F80m per annum in the 1930s. In this decade, public investment surged partly to supplement failing private capital flows and in part to support economic activity in the colonies. As a result, in 1939, out of the cumulated 15bn invested in the empire, 10bn had been drawn from the public purse. Private investment already feeble before the war, completely defected after 1945. As a consequence, from 1940 to 1958, public investment represented over 70% of capital flows. Although this was enormous by imperial and historical standards, it was equivalent to the effort accomplished in the pre-1914 era and accounted in fact just about 4 % of total government expenditure. It seems as if the French government realised belatedly that the exploitation of the empire could only progress if it took steps to ensure its profitability.

TABLE 6

Geographical distribution of public loans in the French empire, 1914-39

(in current Fm)	*1914-30*	*1930-39*
Algeria-Tunisia-Morocco	2,490	5,630
Western Africa (AOF)	100	3,120
Equatorial Africa (AEF)	390	13,760
Togo, Cameroon	0	10
Madagascar, New Caledonia	0	850
Guiana, Martinique, Guadeloupe, Réunion	20	431
Indochina	60	1,770
Total	**3,045**	**13,452**

SOURCE: Bloch-Lainé, pp. 108-9.

3.2. *The profitability of colonial investments*

Data on actual returns on colonial investments, are patchy. More research needs to be done on comparing rates of return and dividends between domestic and colonial firms [7].

[7] see Davis and Huttenback (1988).

At first sight and embracing the whole period under consideration, the Empire did constitute a privileged preserve for direct investment, comparable to pre-1914 Russia. Like Russia it offered apparent (!) lower risk *and* more secure returns (in the form of bonds essentially) as exemplified by the longevity of colonial financial companies: half of those extant in 1958 had been created before 1914. Cursory evidence suggests that profitability was in the long as in the short run, far superior compared to domestic investments. Profit increases of 30% were not rare. The standing of the colonial stocks on the stock exchange also suggest that they offered attractive opportunities. This good standing might be explained by the structure of colonial investment. One third was made up by mining companies, another by commercial and transport ventures. As Marseille emphasises, these thrived on «plunder», on the exploitation of the colonies' natural resources. Furthermore if direct investment kept flowing into the colonies after 1920, (representing 68% of French foreign investment in 1929), this is surely the sign of competitive returns. While the French securities general index rose by 444% between 1913 and 1929, that of the value of equity of colonial companies increased by 685%.

Yet these figures might be misleading. In so far as they represent the performance of a limited number of large companies, the apparent financial vitality of colonial ventures might not reflect their real viability, least of all their effects on long-run economic development in the colonies, but simply result from a sequence of artificial, speculative bubbles. Apart from those inserted in the «colonial system», the life expectancy of colonial ventures was particularly short and over one third of the interwar creations did not mature. The bulk of fixed assets was concentrated in mining and plantation companies (53%) and a further fraction was held by sea shipping. The impression of mere colonial plundering is reinforced by the fact that the equity quoted on the stock exchange differed from productive assets actually created in the colonies. From 1929 onwards the growth of the latter markedly slowed down, before reaching virtual stability in the 1950s (1914 F5.5bn in 1929, 6.2 in 1938, 6.9 in 1958). Obviously as investors became more and more reluctant to buy colonial securities, likewise entrepreneurs retreated from prospective projects in the Empire. The average profit levels declined as did annual dividends at the same time as concentration seemed unavailable. In 1914 46 companies reaped a total F117m in profits; the figure (expressed in constant money) was 105m for 132 companies in 1958. The twenty largest companies earned 61% of total profits in 1929 and 68% in 1958. Profitable business in the Empire benefited in fact only a selective sample of firms and clustered in only a few areas of business activity: «[geographically it] was restricted to Indochina and Algeria» (Marseille, 1984, p. 132). Hence the vigour with which French governments attempted to preserve these two pillars of the «French Union». [8]

3.3. *Private losses, Public relief*

Between 1930 and 1958 public authorities dominated investment flows. Even before this period, governments had been already involved in funding colonisation (a cumulated sum of 1914F 1328m had been allocated to civilian capital formation between 1880 and 1930). After 1945, public investment represented 80% of all capital flows to the empire which dwarfed the resources local businesses could hope to find in domestic financial markets. Obviously public authorities had to shore up private investment to maintain a continuous flow of resources to the colonies. Furthermore, the *Caisse des Dépôts et Consignations* (a financial arm of the French government) offered interest payment relief to private businesses to help them with promising colonial projects. The government also encouraged local authorities to finance development programmes through borrowing. As a consequence, public investment came increasingly to compensate for private disinvestment. From 1952 current accounts between France and its empire were balanced only through government transfers.

Some investment was to prospect for oil and other underground resources (metallic ores). But most just served to balance the yawning gap between the exports supplied and the imports purchased by the mother country. Another reason why public transfers to the Union swelled in this decade, is that part of national social programmes were generously extended to some French territories, especially Algeria, Guadeloupe, Martinique and Réunion (which had been granted département status in 1946). As of 1941 non agricultural labourers already were entitled to family allowances and in the 1950s various benefits were added for school enrollment in 1950 and for housing in 1954.

Flows of this magnitude imposed significant domestic costs on metropolitan France. It constrained domestic capital formation. 17% of

[8] The one-million *pied-noir* population of Algeria also acted as a powerful element to keep Algeria a French territory (The three départements were integrated to the homeland and not part of the «French Union»).

TABLE 7

Public and private transfers from France to the French Union, 1952-58

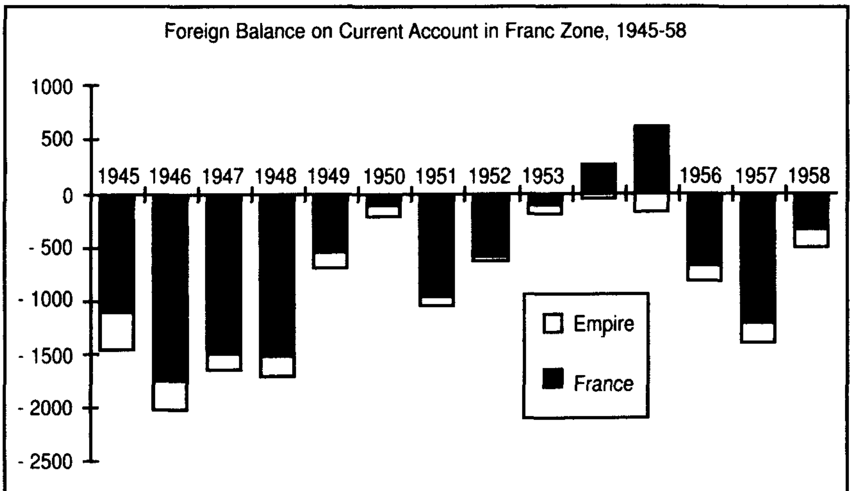
(im 1952 ct Fbn)	*Private*	*Public*	*Balance*
1952	−257.8	287.5	+29.7
1953	−238.6	251.6	+13.0
1954	−245.9	269.5	+23.6
1955	−313.5	372.2	+58.8
1956	−557.7	575.6	+17.9
1957	−551.2	665.0	+113.8
1958	−745.3	800.0	+54.7

SOURCE: Marseille, 1984, p. 134, and INSEE, 1988, p. 286.

total French public investment (or F737bn) originally earmarked in the Monnet (first) plan for reconstruction were directed into colonial development projects (Bloch-Lainé & Bouvier, 1986, p. 158). The outflow of domestic capital offset the colonies' payments deficit with France and made possible the continuous imbalance in colonial trade. But in addition, French dependencies, unlike their British counterparts, managed to import more from and export less to the Rest of the World. Instead of thriving on profitable «triangular trade» derived from colonial net exports to the rest of the world, the «colonial system» had led to exactly the reverse. Even when France managed to run a surplus on its current accounts, the Empire always ran a deficit (figure 7). In the 1950s, the Empire's negative contribution to France's total balance of payment deficit never fell under 8% and was usually very much higher. This worsened the dollar shortage that the country had to face by about a fifth (Moussa, 1957, p. 248).

In short, when commercial accounts are balanced not just at the imperial levels but also with the rest of the world, the utility of colonial markets to domestic exporters seems to have been more than offset by the empire's negative influence on France's overall payments position: over time the imperial connection had become a drain, not an asset.

FIGURE 7



Source: INSEE, 1996, p. 366.

CONCLUSION

From patchy information collected here, emerges a contrasted balance sheet of French imperialism. The colonial system served the interests of a small group of French economic concerns, but their gains imposed substantial long-term costs on French economic development, costs that became heavier and more apparent as time went by.

From the very beginning, France could not reserve for herself the exploitation and development of her colonial acquisitions. Until the 1930s, domestic protectionism (colonial imports were treated on a par with foreign imports) rendered the colonial system ineffective, by hindering the development of the empire, which could only proceed with a certain measure of free trade. French industrial firms were never in a position to absorb all colonial exports or monopolise the supply of colonial imports. When France decided to turn more decisevely towards its colonial dependencies, it was a more or less forced move made necessary by the contraction of world trade in the 1930s and the lack of interest from private investors. It became apparent that this enterprise did not promote a fruitful relationship with the empire and the government had therefore to step in and increase public transfers. In the end, the outcome was logical: speculation forms the sinews of colonisation. Profitable returns were expected but always in the distant future; meanwhile, further investments had to be made, draining further resources from the mother country to its dependencies. In the 1950s, many government officials as well as politicians had come to realise that the «Empire cost dear and earned little for France». Imperialism, turning against its erstwhile promoters, was clearly now turning against the interests of domestic economic development. It had clearly not been the best option, it had only been for a time, the second best, fullfilling what economists call «satisficing» objectives. Second-best strategies (apart from the fact that they benefited and were therefore subsequently defended by committed interest groups) are thus perceived as the only «realistic» options because they are presented in a particular set-up of political-economic circumstances inherited from the past.

But potential economic losses from miscalculations and missed opportunities (which decolonisation finally accomplished) must be weighed against the whole sequence of historical developments in the 20th Century. In the long-run, to be sure, the economic association of France with her empire was bound to benefit the latter and tilt the balance of net transfers on the side of the colonies, in so far as the latter required constant inflows of capital both to balance their trade deficit and to promote local development. Clearly in this regard, decolonisation made economic sense as it unleashed energies previously constrained by imperial commitments. But in the course of the turbulent 20th Century the French Empire also supplied human resources in wartime without which the French people would have been the worse off at critical moments of its history.

ADDITIONAL SUGGESTIONS

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1. The French empire played a significant role during the two world wars. During World War One, North Africa and the sub-saharan colonies sent to the Western front some 370,000 men; 75,000 of them (one out of five) were killed in action. As the Allies were, at some periods, desperately short of men, this fresh supply of troops was not negligible, compared to a total 8 million Frenchmen were called up between 1914 and 1918.

On the other hand, the use of Arab and African troops during the occupation of the Rhineland and of the Ruhr created deep resentment among the German population. As a result, during the campaign of 1940, the Nazis executed at once some Black servicemen who fell in their hands. In the course of World War Two, the Vichy government pretended that the Empire was a trump card, which helped it to resist German demands. Vichy did not resist much— but, the empire did play such a role.

Some colonies defected and rallied to General de Gaulle and although they were far away and poor (Equatorial Africa and the pacific Islands), they gave him a territorial base and some troops.

The Anglo-American landing in Morocco and Algeria in November, 1942 (and the rallying of those two territories, after a token resistance) gave to the Allies a springboard for attacking Sicily, then Italy, and later for the landing in Provence. The First French Army played a significant part in Italy and then in France in 1944-45. This represented its main contribution to the Allies' victory. It was made up of Europeans settled in North Africa, of Algerian and Moroccan natives, plus men who had fled from France to North Africa through Spain.

So, we may apply to France Peter Cain's view about the British empire: if it was a net loss in peacetime, it made up for this in wartime.

2. However, from the political and military point of view, there is also a heavy debit side to the balance sheet.

In the late 19th Century and up to 1914, colonial disputes poisoned relations first with the UK, then with Germany. Britain and France almost went to war during the Fachoda crisis (1898). Colonial rivalry caused increased expenditure on the French Navy and on coastal fortification.

There is no need to stress the connexions of two crises over Morocco in 1905 and 1911, to the origins of World War One.

After World War Two, France wasted a good deal of money in trying to «develop» its colonial dependencies, and much more in fighting against nationalist movements for independence. The long wars in Indochina (1945-54) and in Algeria (1954-62) are notorious, but less bloody and shorter conflicts also took place in Tunisia, Morocco and Madagascar. Today these wars seem sheer madness, but earlier decolonisation, was not possible in the political context of the late 1940s and of the 1950s, both internal and external (the US government pressed the French to go on with the war against the Communists in Vietnam). The iron will and wile of de Gaulle were needed to impose the independence of Algeria on the French political elite.

At the time, some people considered that those wars were ruining France's economic chances. This pronouncement certainly seems excessive, but they help to explain why France did not enjoy an economic miracle, like Germany, Italy, Japan, why she was the laggard among Western countries, possibly why she is today still one of the poorest. The cost of resettling in France one million Europeans, who had to flee North Africa (specially from Algeria in 1962), must also be taken into account.

Certainly, the period 1945-62 was the one when the negative consequences of Empire were the most serious; one can safely assume that a faster economic growth would have been attained by France, if decolonisation had been achieved earlier and without these expensive wars.

Finally, unlike Britain or the Netherlands, France has not completely shed her «imperial responsibilities».

She has retained an economic and military hold over many former colonies, especially South of the Sahara. This has been denounced, both at home and abroad, as «neocolonialism», through which the exploitation of those countries was continued. Actually, this policy has been quite expensive, and one can wonder about the economic benefits it has brought to France —except as in colonial times, the gains to special interests [9]. One shocking example is the purchase of Algerian oil and natural gaz well over world prices. Moreover, the influence which France has retained in Francophone Africa contributes to her illusion of remaining a great power.

[9] France runs a large surplus in trade with Africa, which is, of course, financed by the French taxpayer.

One must also mention the Dom-Toms (overseas departments and territories), which are mainly remnants of the first French empire (Martinique, Guadeloupe, Guiana, Réunion), plus some relics of the second (Tahiti and other islands in the Pacific). Their cost is large, as their inhabitants enjoy the same social services as in France.

Finally, there is the burning issue of immigration from Africa, which largely results from the colonial past, and which destabilizes France.

Overall and in the *longue durée,* the balance-sheet of Empire is disastrous. Colonial expansion is one of the factors which have made France a backward, miserable, poor and wretched country. A factor of the phenomenon I call «*le malheur français*»- the French catastrophe.

APPENDIX

TABLE A1

Overseas possessions retained by, restored to or conquered by France, 1815-1940

Colonies	*Protectorates*	
St. Pierre et Miquelon (off Newfoundland)		1635
Pondichéry (Bengal)		1699
Reunion (Bourbon Island)		1715
Senegambia		1817
(Arguin 1727, St. Louis 1779)		
Guadeloupe		1817
Martinique		1817
French Guiana		1817
Algeria		1830
Wallis and Futuna		1842
Tuamotu Islands (South Pacific)		1842
Tahiti		1843
New Caledonia		1853
Ivory Coast		1853
	Cambodia	1863
Annam (Southern and central Vietnam)		1867
Kuang Chu Wan (China)		1874
Society Islands (Southern Pacific)		1880

Colonies	*Protectorates*	
	Tunisia	1881
Tubuai Islands (South Pacific)		1881
Somaliland (Djibouti)		1884
Tonkin (Northern Viet-Nam)		1884
Comores (Indian Ocean)		1885
	Madagascar	1885
	(Ft. Dauphin 1746, Ste-Marie 1750)	
Benin		1892
	Laos	1893
Niger		1896
(French) Congo		1898
«Soudan» (Tchad)		1899
	Morocco	1912
League of Nations mandates:		
Cameroons		1920
Togo		1920
Syria		1920

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WAS IT WORTH HAVING? THE BRITISH EMPIRE 1850-1950 [1]

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The question of whether the possession of an empire under a regime of free trade was beneficial or not to Britain has become a serious matter of dispute in recent years amongst British and American economic historians. Nonetheless, as some of them recognise, the question they are asking is hardly a novel one: they are often consciously reviving, in a more sophisticated form, a controversy which was already dividing contemporaries in Britain at the time the Corn Laws and the Navigation Acts were repealed in the late 1840s and which only lost its relevance when decolonisation began in earnest in the late 1950s. O'Brien and Davis and Huttenback are on the side of those who traditionally disparaged the economic value of empire and saw it as the preserve of special interests: Edelstein and Offer, though careful not to justify empire, are more willing to accept that the nation as a whole might have benefited materially from its possession even if the benefits were very unevenly spread. The discussion, though ingenious and highly informative has, however, been somewhat narrowly focused. So, in the latter part of the paper, it is suggested that a full assessment of the value of the empire to Britain depends upon taking account of a wider set of circumstances than has usually been evident in the current debate. In this respect, present day historians may have something to learn from the contemporary controversy where the question of the material costs and benefits of empire was always considered in the context of the social and political trajectory of the British nation.

I

Throughout the period under review a long line of liberals, radicals and socialists, of whom Cobden, Gladstone and J. A. Hobson were among

[1] I would like to thank Michael Edelstein for taking the trouble to read and criticise a draft of this paper and all the participants in the conference held in Madrid in February 1997, especially Stan Engerman and Patrick O'Brien, for their helpful comments and encouragement.

the most famous early examples, insisted that the possession of empire not only brought no material benefits to the nation as a whole but actively harmed its growth prospects. The Victorian and Edwardian critics of imperialism had in mind a distinction between what Herbert Spencer called «militant» and «industrial» societies [2]. The former were those dominated by a territorial aristocracy whose rule was authoritarian and whose rationale was war and conquest: the latter were societies based on liberal institutions and on peaceful market activity. Imperialism was a natural outcome of militant societies but was inimical to industrial ones which, through the international division of labour, encouraged world economic development, interdependence and mutual understanding. Radicals feared imperial expansion as a throwback to militancy: they claimed that it encouraged high levels of defence spending and warfare and thus increased taxes, lowered savings and investment, made a return to protection more likely and undermined the standard of living of the «industrious classes» in the interests of the traditionally privileged. Not only were the costs of imperialism higher than the benefits: the benefits went to the few, the nation paid the costs [3]. In J. A. Hobson's analysis, corrupt financiers supervising a diseased capitalist system replaced the landed aristocracy as the chief motivators of imperialism but the thrust of the argument did not change. He fervently believed that the source of Britain's wealth and strength was the free domestic market and that the key to prosperity was to improve and extend it. Imperialism and colonialism were simply costly diversions which, by maldistributing income and wealth, posed a threat to the long term economic stability and to the values of liberal society. Implicit in both Cobden's and J. A. Hobson's stance was the belief that a properly functioning market society would always guarantee full employment of resources [4].

On the other side was an equally long line of apologists for empire of whom Disraeli, Rosebery and Joseph Chamberlain were amongst the most prominent. Put in Spencerian terms, their argument was that some of the features identified as militant were necessary to the functioning of British economy and society. Implicitly rejecting the radical assumption that full employment was an automatic outcome of free markets, they claimed that the empire was a positive source of strength to the nation

[2] Spencer (1902), pp. 568-642. See also Cain (1979).

[3] For a famous statement see Gladstone (1878a).

[4] J. A. Hobson (1988). There is an excellent summary of the main argument in J. A. Hobson (1898).

in terms both of the markets it provided and the openings for investment it created and fully justified whatever defence costs were necessary to preserve or extend it. Imperialists attacked the Cobdenite assumption that British and world trade would be unaffected if empire was abolished and the Hobsonian one which claimed that a redistribution of income and wealth in Britain would boost domestic demand to such an extent as to make foreign or imperial trade less necessary. Abandoning the empire, or failing to extend it when the occasion arose, would mean either that large tracts of territory would disappear from the world economy or that, at the least, they would be occupied by Britain's rivals and subjected to tariffs which would harm British trade. Either way, the result would be less output, investment and employment in Britain. Also, since imperialists thought of international society as basically anarchic and unpredictable they valued empire as a resource which could be called upon to defend Britain in times of crisis or war [5]. Again, while radicals saw empire as a threat to a liberal society, the apologists for empire candidly accepted that it brought economic benefits which helped to preserve the economic and social status quo, with its peculiar mix of traditional and modern elements, and because it gave the nation a galvanising sense of mission [6]. Some imperialists, such as the leader of the Liberal Imperialists, Lord Rosebery, argued that all the essential benefits of empire could be captured within the free trade framework. Others, Joseph Chamberlain most obviously, became convinced that empire was of such significance that it should be given privileged economic status either within a *Zollverein* or through a system of preferences.

II

Implicit in this radical-imperialist debate are what we would now recognise as counterfactual assertions. Leaving aside the question of psychic benefits or disabilities [7], radicals were arguing that, if Britain had not possessed an empire, then the nation as a whole would have been either no worse off or better off in material terms while imperialists were asserting the opposite. What modern economic historians have done recently is to

[5] Hence Disraeli's flamboyant use of Indian troops during the Middle Eastern Crisis of 1877-8. See Eldridge (1973), pp. 223-4.

[6] See the extracts from Disraeli's famous Crystal Palace speech of 1872 in Bennett (1962), pp. 257-9. For a more extended treatment a good source is Dicey (1877).

[7] Offer thinks that the psychic benefits of empire were significant. See Offer (1993), p. 232.

try to specify these counterfactuals rigorously and to quantify as precisely as possible (within the limits set by data constraints) what the benefits and the costs of the empire were. A number of «back-of-the-envelope» calculations have been attempted over the years, but the modern discussion really began with Michael Edelstein's elegant formulation in 1981 which covered the period 1870-1914 and which he has recently extensively revised to take account of criticism and new data [8].

Aware that for a world bereft of the British empire there are an infinity of possible outcomes, he offers two plausible standards of comparison to measure against what actually occurred. The first, the «marginal standard», is a world without empire in which the level of global economic development is assumed to have been the same throughout the 1870-1914 period. Here, the only change faced by Britain would be tariffs or, in the case of the white settled colonies or Dominions, possibly higher tariffs than actually existed. On this basis, Edelstein tests what the outcome would have been assuming the general adoption of a tariff level equivalent to that of the United States which rose from about 20 per cent to 40 per cent *ad valorem* between 1870 and 1914. In order to estimate benefits on the marginal standard he then has to make rough estimates of the price elasticity of British demand for colonial goods and vice versa, and of the empire's marginal propensity to import. The second, or «strong standard» of comparison is one where Britain's withdrawal from empire meant that these territories were less integrated into the world economy. In this case, Edelstein assumes that the white colonies would have probably reached the Argentinian standard of development with a level of per capita exports at about 70 per cent of the actual. For the dependent empire like India, he uses countries such as China as a yardstick and argues that they might have taken one quarter of their actual level of British exports if independent.

After reminding his readers that «the numbers which follow are to be taken as conjectures of direction and order, not precise magnitudes», Edelstein concludes that, on the marginal standard, Britain's possession of empire brought benefits in terms of visible and invisible trade worth 1.6 per cent of GNP in 1870 and 4.9 per cent in 1913 when the empire's share of British exports was 26 per cent and 36 per cent respectively. However, on the plausible assumption that white colonial tariffs were in practice set independently of Britain and would have been no higher in

[8] Edelstein (1994a).

a non-empire world, he then reduces the marginal standard gains of 1913 to 3.8 per cent. In comparison, using the strong standard, he claims gains from empire of almost 4 per cent of GNP in 1870 and 6.5 per cent in 1913 [9]. Edelstein's calculations thus offer a certain amount of support for the case made by imperialists and also suggest that the benefits of trading with the empire increased over time.

The assumptions lying behind Edelstein's calculations on trade can certainly be attacked. For instance, in discussing the «marginal» standard, Edelstein discounts the possibility that, by stimulating world industrial growth, increased tariffs in ex-empire countries could have increased the demand for British exports in the long run. As for the «strong» standard, his argument that countries such as India would have cut their contacts with the world economy drastically can also be challenged [10]. In support of the Edelstein position, Paul Kennedy has reiterated the view, expressed most forcibly by Charles Dilke in 1868, that India's place in the world economy depended upon imperial control [11] and that, since Britain's trade with India was vital to the system of multilateral payments based on sterling, imperial trade also helped to keep the international economy afloat. O'Brien however, believes that even if Britain had done much less trade with India the transfer problem could have been settled by Britain abandoning unilateral free trade, taking an active role in tariff bargaining with America and Europe, reducing its deficits with them and stimulating world trade in the process [12]. Whatever one's views on this particular issue, the assumptions underlying the «strong» standard may be too rigid. For example, one possible outcome of a British withdrawal from empire was the absorption of India and similar tropical or semi-tropical colonies by other European imperial powers. In those circumstances, even if Britain faced higher tariffs, tropical development could have produced levels of trade with Britain significantly higher than Edelstein assumes.

O'Brien also claims that, if foreign tariffs did affect trade or empire markets were lost, any such loss could have been made up either by finding new markets abroad or in Britain itself: he goes further than McCloskey who offers a simple Say's Law perspective [13] and agrees with J. A. Hobson that there was an underconsumption problem in Britain and that a judicious

[9] Edelstein (1994a), pp. 202-4.
[10] O'Brien (1988), pp. 167-70.
[11] For Dilke's statement see Bennett (1962), p. 240.
[12] P. M. Kennedy (1989), pp. 186-7; O'Brien (1989), pp. 192-4.
[13] McCloskey (1970).

redistribution of income would have increased employment, stimulated the domestic economy and reduced the need for foreign markets. O'Brien then goes on to suggest that empire was not only unnecessary but was also a positive hindrance to growth since, in providing safe outlets for Britain's older staple exports, it retarded the rate of economic change in Britain and aggravated the problem of relative industrial decline [14]. There are problems with the O'Brien approach because his counterfactual world is based on an inherently implausible mix of factors and policies: as we shall see, the combination of domestic demand stimuli and a pragmatic tariff policy which he suggests was not politically possible before 1939. Nonetheless, his critique highlights the fact that Edelstein's calculations probably indicate the upper bounds of possible gains from trading with empire before 1914 and that, if underconsumption is taken seriously, the empire may even have had a negative impact on British growth [15].

III

Calculating the gains from investment in the empire is a trickier process. Even the absolute amount of British capital abroad has been questioned in recent years [16]. However, the consensus now appears to be that the traditional figure of around £4bn. of accumulated assets abroad in 1913 is roughly correct and that about 60 per cent was portfolio investment —that is, investment in foreign-owned companies— and the rest direct investment [17]. There is also general agreement that British investors preferred social overhead capital, mainly in railways, in countries of white settlement and that investment in empire represented only about two-fifths of the total, with the white colonies providing a much more important outlet than India or the dependencies [18].

Agreement on rates of return is harder to come by. The most comprehensive evidence has been compiled by Davis and Huttenback, based on a survey of the published accounts and records of 482 British firms operating between 1860 and 1912 and assessing *ex post* realised rates of return. They come to the rather startling conclusion that, before the

[14] O'Brien (1988), pp. 170, 184.

[15] It should be noted that, in his earlier work, Edelstein also showed some sympathy with underconsumptionist arguments. See Edelstein (1982), ch. 8.

[16] Platt (1986).

[17] Feinstein (1990), Corley (1994).

[18] Davis and Huttenback (1986), ch. 2.

mid-1880s, investments in empire brought better returns than either domestic or foreign but that from 1884 to 1913 the position was reversed [19]. Davis and Huttenback's sample of firms has been criticised as unrepresentative and their results are also questionable because they take no account of risk and because of their reliance on company statements and records which are notoriously flawed and easy to falsify. Their data also has an in-built bias in that it ignores government bonds, one of the most important forms of empire investment and one in which returns on imperial investments were impressively higher than on similar domestic securities [20]. The main alternative to Davis and Huttenback is Edelstein's earlier study of the financial market rate of return of 566 stocks, culled from the financial press [21]. This presents methodological difficulties of its own [22]; but the data is adjusted for risk, the list of securities is more comprehensive in scope and, it has been claimed, Edelstein's measure captures the «constant review of expectations and prospects [which] is the essence of economic life» [23]. Edelstein does not separate out imperial from foreign investment in any systematic way but an arrangement of his original data on railway investment does show that returns in the empire were on average 0.7 per cent per annum higher than in the domestic market and that there were similar differentials on government and other social overhead investments in the empire. [24] On the other hand, although returns on imperial investments were significantly higher on average over the whole period 1870-1913, Edelstein demonstrates that domestic securities were a better bet than either comparable foreign or empire ones between 1870-6, 1887-96 and 1910-1913 [25]. Imperial exploitation at levels imagined by Marxists and other critics of empire did not exist except in a few spectacular and unrepresentative cases.

In assessing gains from investment in empire it is necessary to take into account the fact that members of the empire paid less than foreigners on their borrowings. Legal enactments such as the Colonial Stocks Acts [26], and British confidence that standards of law and justice in the empire would be similar to those at home, made it possible for the empire to

[19] Davis and Huttenback (1986), ch. 3, esp. pp. 106-10.
[20] Offer (1993), pp. 216-20. On this issue see also Hopkins (1988) and Alford (1988).
[21] Edelstein (1976). See also Edelstein (1982), ch. 4.
[22] O'Brien (1988), pp. 177-8, and Pollard (1989), pp. 77-81.
[23] Offer (1993), p. 219.
[24] Davis and Huttenback (1986), p. 81, and Edelstein (1994a) p. 206.
[25] M. Edelstein (1994b), pp. 182-5.
[26] Jessop (1976). Some colonial investments had been given trustee status in the 1870s.

borrow more cheaply. To that extent imperial investments were subsidised and were a cost to the British nation, the subsidy being measured by the difference in borrowing rates offered to foreign countries at similar levels of development [27]. Taking this into account, Edelstein concludes that, on the marginal standard described, the loss to Britain of cheaper empire borrowing was about 0.2 per cent of GNP in 1870 rising to 0.94 per cent in 1913. On the strong standard of measurement, the higher interest rates paid by independent white colonials would have been offset by their borrowing less. However, although an independent underdeveloped empire would probably have paid twice as much for the privilege of borrowing, it might also, using countries like China and Turkey as a measure, have borrowed only one-fifth of the actual total. On that basis he concludes that the investment gain to Britain from possessing an empire under strong standard assumptions was about 0.3 per cent of GNP in 1870 and 0.5 per cent in 1913 [28].

Clearly, the gains from investment in empire were small at best and, on Edelstein's marginal standard, may have been non-existent or even negative. Moreover, as in the case of trade, Edelstein's calculations are based on the assumption that the resources sent abroad were surplus to domestic requirements. There is now a considerable literature which argues strongly that foreign and imperial investments were frequently a misallocation of resources [29]. On this reading of the evidence market failure and segmentation based on traditional divides between City and provincial industry, and aggravated by inadequate company law and accounting practices which perpetuated ignorance, meant that Britain had two distinct capital markets with traditional elites dominating the City and overseas investment [30] W. P. Kennedy in particular has persistently pointed out that the average rate of return on industrial investment in Britain as a whole was considerably higher than on overseas investment. A better distribution of income and more efficient capital markets would, he believes, have produced more investment in domestic equities and less in safe imperial and foreign bonds; and this, in turn, would have meant much more domestic investment, a stemming of the flow of emigration and a rate of growth far higher than that actually achieved between 1870 and 1914 [31].

[27] Davis and Huttenback (1986), pp. 171-4.
[28] Edelstein (1994a), pp. 207-10.
[29] O'Brien (1988), pp. 181-6, and W. P. Kennedy (1987).
[30] Davis and Huttenback, ch. 7.
[31] W. P. Kennedy (1987), pp. 152-3.

W. P. Kennedy's stance is highly controversial. The fact that two-fifths of British overseas investment was direct suggests that it is wrong to characterise all overseas investment as low risk: the rise of the so-called «free standing company» after 1870 is an example of innovative foreign investment [32]. On the domestic front, some historians have questioned whether the traditionally successful part of British industry could or would have responded to new opportunities had the City of London offered them since there is strong evidence that the time-honoured and local methods of raising funds was quite sufficient for the needs of most entrepreneurs [33]. There is also evidence that inept state and local government controls hobbled profits and investment in key areas of new technology such as electricals and motor vehicles and this, rather than unresponsive City institutions, made it difficult to raise money for these industries in London [34]. However, there remains a possibility that some innovatory entrepreneurs, those at the frontiers of technological and organisational change, were seriously disadvantaged by the existing structures of capital markets in Britain. The traditional financial institutions which serviced industry, such as the clearing banks, sometimes failed to adapt to their needs because of their emphasis on liquidity; while the funds they wanted to raise were, in amount and in form, outside the purview of the City of London which was geared mainly to providing large loans for governments and public utilities at home and abroad [35]. Although Edelstein is sceptical of arguments such as Bill Kennedy's [36], he does recognise that *if* resources were diverted abroad by some kind of market failure then imperial and foreign investment could have been harmful to the economy [37]. Indeed, if there was misallocation of resources affecting trade as well as investment the gains from empire, even under the strong standard, would have been low or even negative. In that case, the whole imperial exercise was actually a burden on the economy even if it was beneficial to some sectional interests such as traditional elites [38].

[32] Wilkins (1988).

[33] Davis (1966) and Cain and Hopkins (1993a), pp. 190-5.

[34] Michie (1988).

[35] Capie and Collins (1996).

[36] Edelstein (1994b), pp. 187-92.

[37] This question of the relationship between financial institutions and British industry is far too complex to be treated adequately here. For further information see the excellent surveys of the evidence from both sides of the argument in Pollard (1988), ch. 2; Kynaston (1995), pp. 449-72, and J. M. Wilson (1995), pp. 119-31.

[38] Edelstein (1994a), p. 214.

IV

The possibility that the empire was indeed an albatross around the neck of the nation appears to be increased when defence costs are taken into consideration. Davis and Huttenback stirred renewed interest in this aspect of British imperialism when they argued that, between 1860-1912, Britons paid £2.4 per head per annum in tax, £1.14 of which was spent on defence and a further £0.7 was payment on debt accumulated in previous imperial wars, and that these burdens were much greater than those borne by foreign states. While admitting that India paid its own defence costs, Davis and Huttenback also point out that the Dominions paid virtually nothing. Without this imperial burden, taxes could have been much lower with beneficial effects on savings and investment. In reality, governing elites of «peers and gents» and their financial and professional associates got the benefits not only of investment in empire but also the cream of the naval, military, political and administrative jobs associated with it, while the rest of the population bore the tax burden [39].

Davis and Huttenback's statistics, and the inferences they and O'Brien have made from them, have both been seriously questioned. Comparing Britain's defence costs with a ragbag of «foreign countries» is a pointless exercise: the obvious comparison is with the expenditure of other great powers including the United States while keeping in mind that defence costs had also to be assessed in relation to the risks each nation faced [40]. As far as the contribution of the Dominions is concerned, Offer has argued strongly that, in an alliance with Britain where the latter was much larger and also more immediately vulnerable in war, the bulk of defence costs were bound to fall on the mother country [41]. Again, it has been claimed that comparing defence spending on a per capita basis is misleading because it is capacity to pay that counts and a better measure of that is the share of defence spending in national income [42]. Using the latter criterion, J. M. Hobson has recently compared expenditure by the great powers between 1870 and 1914 and shown that only the United States had a lower ratio of defence spending to NNP at factor cost than Britain and that, in 1913 for example, the latter's expenditure was 22 per cent lower than Germany's

[39] Davis and Huttenback (1986), chs. 5, 7, 8, and O'Brien (1988), pp. 186-95.
[40] Offer (1993), p. 226.
[41] Offer (1993), 229-31.
[42] P. M. Kennedy (1989), pp. 190-1.

and 49 per cent and 60 per cent lower than that of France and Russia respectively [43]. Moreover, he believes that the figures underestimate the gap between Britain and the European great powers because they do not capture the hidden costs of the conscription system [44]. O'Brien argues that British foreign and defence strategy was ultimately a failure because it did not confront the German threat early enough and deter it and the reason for this was that Britain was obsessed with imperial defence [45]. J. M. Hobson agrees that Britain failed to deter Germany but counterclaims that this was the outcome of a deliberate choice to keep defence expenditure down rather than a consequence of imperial overstretch. An additional expenditure of 2 per cent of NNP per annum, easily affordable especially with a tariff, would have given Britain an army of 1.3m men in 1914 and put her on a par with Continental forces [46] Moreover, he disputes the implicit assumption of Davis and Huttenback that defence was a dead-weight loss to the economy and points to the possibilities of technological spin-offs [47].

Nonetheless, historians who are already dubious about the trade and investment benefits of empire could easily infer that even a defence cost as low as 3 per cent of national income was sufficient to wipe out any other gains and that the nation would have been better off without formal empire at all. And, although no serious attempt has yet been made to assess gains and losses in a systematic way for the interwar period, it seems likely that despite additions to territory as a result of the First World War the empire was, at best, a shrinking economic asset before 1939. A rough calculation, using Edelstein's strong standard (which, as we have seen, expresses the outer limits of possible gains from empire) on data for 1937 yields a gain of 3.3 per cent of GNP from trade with the empire and an additional gain of between roughly 0.5 and 0.7 per cent from investment at a time when current defence costs were 3.8 per cent of GNP. (See Appendix.)

At this point in the discussion, however, it is vital to remember that the empire was a part, and not the most significant part, of a truly global

[43] J. M. Hobson (1993), pp. 464-5, 478-80.

[44] J. M. Hobson (1993), p. 493, and Offer (1993), pp. 225-6. Hobson and Offer assume that conscription diverted labour from producing output: but if there was heavy unemployment or underemployment in countries where conscription was practised this would not necessarily be true. I owe this point to Patrick O'Brien.

[45] O'Brien (1988), p. 195.

[46] J. M. Hobson (1993), pp.494-9.

[47] J. M. Hobson (1993), p. 471.

system of trade and investment. Both British economic policy and defence strategy had a cosmopolitan focus rather than a mere imperial one. The abandonment of the «old colonial system» of preferences and of the Navigation Acts by 1850, and the stout maintenance of free trade in the face of mounting European and American tariffs after 1880, is proof enough of this. As Gallagher and Robinson classically demonstrated many years ago, Britain's interest was seen to lie in maximising trade and investment flows world-wide and, insofar as it acquired influence abroad, Britain was happier with «informal» control and resorted to «formal» empire only when informality proved impossible [48]. Whether, as Gallagher and Robinson claimed, extension of the formal empire were due mainly to the collapse of informal arrangements on the periphery or whether, as others contend, the main source of the growth of empire was economic change in the metropolis [49], there is little doubt that it was only one outcome of an ever-widening complex of British economic influence and strategic interests. Despite the enormous growth of imperial acreage between 1850 and 1914, at the outbreak of the First World War Britain still sold two-thirds of its exports outside the empire, took three-quarters of its imports from non-empire sources and sent three-fifths of its migrants and its foreign investments to foreign parts [50]. The empire's share of trade, investment and migration rose rapidly in the 1920s and again under the Ottawa preferential system after 1932: by 1937 it accounted for around 45 per cent of Britain's total overseas trade. However, this rising share occurred in a context where international trade and factor movement as a whole were much reduced by war and by global depression so that the empire's contribution to Britain's economy shrank in absolute terms compared with pre-1914. Nor is there much doubt that, in an ideal world, British governments preferred free trade cosmopolitanism to imperial strategies since they resorted to the latter only when the international economy broke down.

It is precisely because empire was acquired as a bye-product of an internationalist policy that it remained, as O'Brien reminds us in invoking the famous words of Adam Smith about the thirteen American colonies, a «project of an empire» rather than a finished and fully articulated

[48] Gallagher and Robinson (1953-4).

[49] For this approach to imperial expansion, see Cain and Hopkins (1993a, 1993b).

[50] Cain (forthcoming).

system [51]. Formal empire may, or may not, have provided Britain with benefits on the Edelstein calculus but its worth can only be fully assessed in this broader context taking into account the possibility of gains from informal empire and the fact that formal empire was acquired in pursuit of wider international goals. Highlighting Britain's far-reaching interests affects perceptions of costs as well as gains. Britain's defence costs were not incurred simply to defend an empire but to protect a global network of trade and communication: some historians have inferred from this that, even if the empire had not existed, Britain would have found it necessary to pay most of its actual level of defence expenditure, especially that for naval defence which were regarded as the key to its global security. On this reading, even if the benefits attributable to formal empire were small the costs were also low [52]. This, however, is rather an extreme view and much further research and analysis is required before the share of defence costs directly attributable to empire can be assessed with any confidence [53].

Besides recognising that many defence costs were independent of empire it is also important to assess the role of empire in war in order to arrive at a proper understanding of its value to Britain. For example, Offer has denied that it is possible to capture the benefits brought by the empire unless its part in the 1914-18 war is taken into account. He claims that, whatever the verdict on the empire's place in Britain's economy before 1914, it is evident that between 1914-18 the contribution of the empire, and of the Dominions in particular, in terms of men and supplies helped provide Britain with a crucial margin of superiority over Germany. The empire provided one-fifth of the fighting forces and the troops were of a higher average quality. It was also a source of loans and of vital supplies: in 1917, for instance, Canada provided between a quarter and a third of Britain's shell-fire on the western front [54]. Moreover, Offer's argument

[51] O'Brien (1988), p. 199. In a moment of exasperation, the protectionist imperialist, Joseph Chamberlain, once called the empire a «loose bundle of sticks, bound together... by a thin tie of sentiment and sympathy». Boyd (1914), II, pp. 295-6.

[52] Porter (1988), pp. 693-5, and Offer (1993), pp. 232-4.

[53] Edelstein is aware of the problem and suggests that roughly half of defence expenditure should be allocated to empire: Edelstein (1994a) p. 212. It is interesting to note that a Liberal Imperialist politician, Herbert Samuel, once argued that while the navy was necessary to preserve Britain's international position in general, a large part of the army bill should be debited to empire. See Samuel (1902), pp. 302-3. O'Brien accepts that only half of defence costs might be attributable to empire but from his perspective even that is too high a figure. See O'Brien (1989), p. 198.

[54] Offer (1993), pp. 234-6. These insights arose from Offer (1989). See also Edelstein (1994a), pp. 215-6.

can be extended to the Second World War when, for example, besides providing large numbers of fighting troops, Canada alone contributed $3.5bn. in unrequited exports and aid: the rest of the empire allowed Britain over $11bn. of credits held in the form of sterling balances [55].

From this perspective even if, as radical critics suggest, the empire was a «net loss» in peacetime it definitely paid in wartime, not only contributing vital resources but helping to preserve Britain's very existence as an independent nation. In assessing the contribution of the Dominions in particular, it may be the case that it was precisely because Britain had allowed them such independence during peacetime, leaving them to devise their own tariffs and allowing them a «free ride» on defence, that the «kith and kin» factor operated so powerfully in Britain's favour in wartime. Besides its influence in world wars, it could be argued that the empire was especially important to Britain in two other periods of crisis, the depression of the 1930s and the post-Second World War reconstruction phase. The Ottawa preference system had severe drawbacks: it was trade-diverting rather than trade-creating and did far more for the empire's exports to Britain than vice versa. Generous preferences for the empire were, however, essential to prevent debt defaults and to maintain confidence in sterling and in the emerging sterling area, thus helping British exports to recover more quickly and contributing to recovery [56]. Similarly, a case could be made that the empire played a critical part in helping to finance the dollar gap for Britain after the Second World War when the war-time sterling area controls were kept in place These arrangements allowed Britain to recycle dollar earnings made by South Africa and by the Malayan and West African colonies for its own purposes and thus helped the country to recover much more quickly after the war [57].

The empire's contribution to Britain's economic and military crises needs to be kept in perspective. The total war expenditure of Britain in 1914-18 is estimated at $43.8bn. while the whole of the empire contributed $5.8bn. The United States made a much bigger contribution to Britain's economy than the Dominions —its total war expenditure was $36.2bn.— and its military intervention in 1917 was probably decisive in bringing the war to an end quickly [58]. In the second world war, the American

[55] Sayers (1956), ch. 11.

[56] Cain and Hopkins (1993b), pp. 83-93.

[57] Krosewski (1993).

[58] Hardach (1977), p. 153. Offer (1993), recognises that American intervention was significant but does not give it quite the weight it deserves (p. 235). It must of course

contribution was even more decisive. It is difficult to see how Britain could have carried on fighting without Lend-Lease after 1941 and the total amount of aid given by the USA ($30 bn.) was three times the level of support received from the empire [59]. Moreover, although the creation of an imperial system was important to Britain's well-being in the 1930s when there were no obvious alternatives on offer, its extension into the post-1945 period was probably harmful since it committed Britain to international trading and financial structures that rapidly became outdated and delayed its commitment to the new Europe emerging in the 1950s [60].

V

These reflections on the political and geo-political ramifications of the empire's wartime contribution suggest that a true perspective on its role can only be obtained by looking beyond the confines of the cost-benefit analysis usually adopted by economists and economic historians. Most of them recognise this to some extent. They are aware, for example, that the distribution of wealth and of income in Britain in this period favoured elites largely cut off from British industry and industrial culture for whom foreign and imperial investments were an ideal outlet for their savings and whose gains from their overseas connections helped to maintain their position in society. With an alternative distribution of wealth a different set of investment choices involving different risk strategies could have been made [61]. However, such shifts in wealth holding would have meant not only the remodelling of economic institutions but would also have involved widespread social and political restructuring and marked changes in economic philosophy and policy. This is less well recognised. For example, as already noted, J. M. Hobson has claimed that if Britain had spent the same share of annual income on defence as that of leading Continental powers and had adopted a tariff it could have had an army of 1.3m. men in 1914. He does not, however, acknowledge that in creating such an army Britain would probably have had to abandon some cherished features of its liberal society in favour of a *Kreigsverein* which would also have had

be remembered that if the empire's contribution was much smaller it was much more certain and immediate than that from the USA.

59 Sayers (1956), pp. 375, 529-31.

60 I would like to thank Larry Neal for reminding me of this.

61 O'Brien (1988), pp. 181-6, and Offer (1993), p. 222.

immense consequences for the empire and for the wider world. This implies that, to assess the value of empire, it is necessary to place it in the context of the structure of the society in Britain which it supported and to measure that society's performance against alternatives. In other words, rather than simply looking at the effects of possessing or relinquishing empire on the economic system *per se,* it would be more helpful to set up a broader counterfactual enquiry and to ask how a British society with a different distribution of income and wealth, and matching economic and political structures and strategies, might have coped with the imperial problem. This would take the debate back towards the more loosely structured discussion of alternatives and outcomes between the radicals and the imperialists with which this paper began. In order to make the comparisons effective it is essential both to sketch in the main outlines of the system as it existed before 1914 (and which was still broadly in place in 1939) and to set it against some *plausible* alternatives, that is those which were actively canvassed in Britain at the time.

In the late nineteenth and early twentieth centuries, Britain was a society in which a complex of non-industrial forces arising out of land, the professions, City finance and other services (which, for the sake of convenience, Tony Hopkins and I have labelled «gentlemanly capitalist») still had a prominent place in the economy and in positions of power [62]. Both as what Veblen called «gentleman investors» [63] and as governing elites they were leading beneficiaries of free trade cosmopolitanism and of the imperial system which grew up within it. The system received powerful support from a broad phalanx of commercial interests and also from large sections of industry, including cotton textiles the most important export interest in the country, which supported free trade because of its raw material import needs and because it benefited from the special conditions which applied within the empire. For example, India, the most important market for textiles was forced to accept free trade; and the British government in many parts of the dependent empire used its influence to «buy British» [64]. Besides that, there was support from the majority of the working class for what we might call the «open imperial economy» in that it provided jobs through export markets, cheap food and outlets for migration for those who found British society too constraining. It was this broad cross-class economic consensus arising out of the open imperial

[62] See Cain and Hopkins (1993a, 1993b) for this argument.
[63] Veblen (1994b), p. 249.
[64] Edelstein (1994a), pp. 200-1.

economy which allowed traditional elites to survive and prosper and which made it possible for them to gain differential advantages from the possession of empire.

Many long term consequences flowed from maintaining the open imperial economy. The return income from foreign investment boosted elite fortunes and also gave a fillip to the development of the service economy in the South of England and, in particular, to the City and financial services [65]. At the same time, it probably slowed down the development of industry in Britain by providing easy markets for traditional staples while subjecting new industry to the disabling impact of unilateral free trade. It also reinforced the traditional dichotomy between industrial sources of finance in the provinces and City money, a dichotomy which may have been harmful to the development of new technology in Britain; and it perpetuated the power of governing elites who knew little about industry and did not care to learn more [66]. The income and the careers made by gentlemanly capitalists in the empire gave them good reason to extend it and defend it vigorously: but there were also great constraints on these elites in matters of imperial and foreign policy and defence. The support for free trade, the hostility to big government which economic success had bred and the long acclimatisation to free markets experienced at all levels of society in Britain, muted the militant side of imperialism as Schumpeter claimed at the time [67]. It also put grave limits on state budgets which is why Britain spent comparatively little on defence, why it was not fully prepared to defend its place in the world and its empire against Germany in 1914 or 1939 and why appeasement had such large part to play in British foreign policy [68]. Cobdenism may not have succeeded in Britain but it had a serious impact at this level: and, while gentlemanly capitalist imperialism aroused German hostility to Britain, the reluctance to spend on defence encouraged Germany to believe that it could win a war in 1914. On the other hand, the open imperial economy had a wide range of imperial resources to call on when war broke out. Of greater significance was the fact that the liberal system Britain defended was attractive enough to bring in the United States on the Allied side in both wars despite the latter's distaste for colonialism.

[65] The service sector has now begun to receive the attention it deserves. See Lee (1986).

[66] Pollard (1989), ch. 4. Edelstein believes that one consequence of this was the neglect of scientific and technical education. See Edelstein (1994b), p. 196. However, Pollard (1989), ch. 3, disagrees.

[67] Schumpeter (1991).

[68] P. M. Kennedy (1983), chs. 1, 3.

Against this thumbnail sketch of the *actualite* there is only space to describe two alternatives, widely canvassed at the time: the radical policy of Cobdenism, or its later Hobsonian version, which O'Brien has invoked; and the scheme of «social» or «constructive» imperialism associated with Joseph Chamberlain and Lord Milner which developed out of the Disraelian concern with the need to unite the empire against foreign rivals. In a Cobdenite Britain with less tax and much less economic privilege, economic resources would have been distributed more favourably to industry and this would have boosted industrial investment and growth especially since, in lieu of imperial outlets, the City would have been forced to adapt itself to domestic circumstances more readily. Technical and business education would have received more resources: yet there is still the possibility that, even without comfortable imperial markets to fall back on, industrial sclerosis might eventually have afflicted society since it did not disappear when empire was finally lost after 1950 [69]. Also, because Cobdenism meant dogmatic support for free trade the bad effects of unilateralism on industry after 1880, when foreign competition became a serious concern, would have been just as strongly felt. The coming of a Hobsonian government in Edwardian times would have boosted domestic demand and domestic industry: but the effects would have been undermined by its own determination to maintain free trade. Such a government would also have lacked flexibility in dealing with the crisis of the 1930s. Its welfare measures would have promoted education and social cohesion: in contrast, its tax regime and its regulation of industry would probably have discouraged entrepreneurial initiative.

Under a radical government, less emigrants and capital would have gone to the white colonies and it is possible that Canada would have been allowed to fall under the informal influence of the United States before 1914 rather than after. However, it is doubtful if a radical government could have avoided some form of colonial empire. Cobdenism encouraged dependence on the international economy and this would have involved extensive trade and possibly investment links with underdeveloped parts of the world which might easily have led to imperialist control. Gladstone recognised in the 1870s that the economic dominance of the United States in the twentieth century was inevitable and did not want to speed up the process by assuming further imperial burdens [70]. Yet he was the leader

[69] This important point is made by Offer (forthcoming).

[70] Gladstone (1878b), p. 204.

of the government which reluctantly occupied Egypt in 1882 and, once in, he found it impossible to get out [71]. With these difficulties in mind, J. A. Hobson hoped that a radical redistribution of income would not only boost domestic output and investment but would do away with the need for many foreign markets [72]. Even allowing for the fact that there may have been underconsumption in Britain, this solution to the problem of imperialism was an unrealistic one and did not meet with the approval of other anti-imperial liberals who referred back to Cobden's confidence in the international division of labour. Interestingly enough, J. A. Hobson himself later adopted a more Cobdenite position and, in doing so, also suggested that imperialism might be an inevitable phase, albeit a passing one, in the development of the world economy [73]. In addition, and despite Cobden's deep misgivings, most liberals were committed to the idea of imperial trusteeship and urged the better government of acquired territory rather than its abandonment. Many, J. A. Hobson included, were fervent supporter of the post-Versailles mandate system for colonies. Radicals would have been imperialists, albeit reluctantly and on a smaller scale than the gentlemanly capitalists.

Governments of a radical persuasion would also have run into serious difficulties about paying for the defence of Britain's global network of trade. They would have been tempted into very low levels of expenditure which might have exposed trade and investment to danger from foreign powers. They would have been less prepared to fight Germany in 1914 and 1939: Cobdenism in a non-Cobdenite world was always problematic and may have encouraged aggression rather than deterred it. Moreover, since the rest of the world would have been less British, there would have been fewer resources to call on from abroad during war. Support from the United States might be expected but greater reliance on them would have established American dominance over the world more rapidly than happened in practice. However, this hypothesis rests on the assumption that German aggression was a given factor. If, instead, we accept the argument that Germany was aggressive towards Britain because of the empire and believe that Britain's own hostility to Germany was determined

[71] Cain and Hopkins (1993a), pp. 362-9.

[72] J. A. Hobson (1988), Pt. I, ch. 2.

[73] J. A. Hobson (1911).

by its imperial possessions and the need to defend them [74], then it is plausible to assume that a radical government would have given less offence in this regard and might have avoided war in 1914 and the knock-on effects which led to Hitler in the 1930s. In this case, American hegemony would have come more slowly than in fact occurred and, when it came, it would have been accepted without rancour. Radicals had no interest in hegemony: a radical government would also have been more willing to look the European option in the face in the 1950s as a result.

The other plausible alternative, most strongly urged after 1900, was that proposed by Joseph Chamberlain and Milner under the heading of «social imperialism» or «constructive imperialism» [75]. In their ideal world, the empire would have been the central concern of economic policy. Free trade would have been abolished and replaced by an imperial tariff union, increasing domestic investment and encouraging a much greater proportion of overseas capital and migrants to go to the empire. More resources would have been devoted to developing the economic potential of the dependent empire with spin-off effects on British trade and industry. Tariff protection would have offered the chance to give infant industry support to new technology and to create cartels with scale economies. Running counter to all this, the empire would have become an even bigger funk hole for the uncompetitive parts of British industry and tariffs would have been distributed through political power rather than for any ostensible scientific reason [76], with a stifling effect on growth: and, because of the imperative of empire unity, it is unlikely that tariffs would have been used effectively as bargaining devices to free up world trade. Moreover, the regime would have been designed to produce an anti-German (and anti-American) *Kreigsverein* with much greater emphasis on defence. Under a constructive imperialist government, an army big enough to match Germany's might have come about and a tariff would have helped to raise the revenue for it and for welfare reforms. This could have encouraged industry to some degree, depending upon where the increased tax burden for defence fell: but as a result, Britain would probably have become a less liberal and more aggressive society and would have begun in some ways to resemble

[74] For an argument that Britain found itself in opposition to Germany before 1914 because this was the inevitable price to be paid for Britain's need to settle imperial quarrels with France and Russia who were «natural» enemies of Germany, see K. M. Wilson (1987).

[75] See Green (1995) and Cain (1996).

[76] For a detailed account of the vain search by Tariff Reformers for a «scientific tariff» see Marrison (1996), pp. 33-7, 118-27, 140-71, 176-86, 194-207.

the Germany so vividly described by Veblen at the time [77]. The chances that a war with Germany would have broken out sooner rather than later are pronounced, especially since in 1909 the German ambassador said that Germany would regard any imperial tariff as a *casus belli* [78]; and, despite Chamberlain's own original pro-German sympathies, the tariff campaign developed a strong anti-German bias. Moreover an imperially aggressive Britain would have found it more difficult to forge alliances with Germany's other enemies. The resources of the empire could have been called on in war but the support of the United States —vital in 1917-18 and after 1940— might not have been forthcoming and an imperially aggressive Britain might not have been able to agree with possible allies against Germany such as France and Russia. Constructive imperialism would have united the empire [79] but it would not necessarily have done much for the economy and its defence and tax regimes could have been oppressive. Moreover, since even under a constructive imperialist regime the empire could not have been anywhere near self-sufficient, Britain would still have been heavily dependent on foreign trade while, because of its tariff and defence policies, having less friends to call on in its hour of need.

VI

As we have seen, the question «was the empire economically beneficial to the nation?» is not easy to answer. However, there seems little doubt that empires provided benefits for governing elites and this is as true of Britain between 1850 and 1950 as it was for Spain and Portugal in earlier times. In providing such benefits, empires thus served to perpetuate traditional elites, whether they were British gentlemanly capitalists or Iberian aristocracies. In so doing, they undoubtedly slowed down the rate of social and political change. They may also have retarded economic progress to some degree though, as we have seen, this is a more contentious issue. To revert to the distinction with which the paper began, it seems that the neat Spencerian antithesis between «militant» and «industrial» societies is hard to sustain. Empire did indeed encourage the survival of militant elements in British society but it is not self-evident that this was

[77] Veblen (1994a).

[78] Hoffman (1964), pp. 290-1.

[79] Though constructive imperialists persistently underrated the difficulties involved in forging a common economic policy with the Dominions.

harmful to the industrial core within it. Neither the radical nor the constructive imperialist alternatives would necessarily have produced a more vibrant economy, a more cohesive society or one more capable of defending itself against its enemies than the actual one presided over by gentlemanly capitalists before the 1950s. Both alternatives discussed are flawed in some major particulars, though the radical option appears to have greater possibilities for successful realisation than constructive imperialism. One thing, however, is certain: in steering a compromise course between these alternatives, Britain remained a stable society and survived the great economic and political upheavals of the first part of the twentieth century relatively unscathed. Empire played its part in maintaining such a stable society and in preserving its independence. In that sense it «paid» handsomely [80].

APPENDIX. THE COSTS AND BENEFITS OF THE BRITISH EMPIRE IN 1937

The calculation in the text is based on Edelstein's strong standard which assumes that Britain would have sent 70 per cent of its actual level of exports, re- exports, service (invisible) exports and foreign investment to free Dominions while the corresponding figure for a free dependent empire would be 25 per cent of exports, re-exports and service exports and 20 per cent of foreign investment.

i) TRADE AND SERVICES

The *Statistical Abstract of the United Kingdom* gives exports and re-exports to the empire as £264.1m. Trade with the Dominions was £131.1m. and with the dependent empire was £133m which, on the above assumptions, would produce income under the strong standard of £91.7m. + £33.3m. = £125m. Total income from service exports in 1937 was £84m [81]. The empire took 45.4 per cent of exports and re-exports in 1937 but the share of the empire in service exports was probably higher

[80] Whether it «paid» to be a member of this empire rather than its leader is, of course, an entirely different question. All we can say for sure here is that this is not a zero sum game: the fact that Britain benefited from empire does not necessarily mean that the rest of the empire lost and vice versa.

[81] Feinstein (1972a), Table 38.

given their financial dependence on Britain. Assuming that empire accounted for 50 per cent of service exports (£42m.) divided equally between Dominions and dependent empire gives an income on the strong standard of £14.3m. + £5.3m. = £19.6m. Actual visible and invisible trade in 1937 was therefore £264.1m. + £42m. = £306.1m.: the same trade on the strong standard would be £125m. + 19.6m. + £144.6m. The gain from the empire on trade is then £306.1m. – £144.6m. = £161.5m. This was 3.3 per cent of GNP which has been estimated at £4,193m. [82].

ii) FOREIGN INVESTMENT

As in Edelstein's pre-1914 calculation, it is assumed that a fall in investment in the Dominions would be compensated by rises in interest rates so that the effects cancel out. Investment in the dependent empire is reported at £639m. in 1937 out of a total invested abroad of £3,240m. [83] which, on the assumption of a 6 per cent annual return [84], gives an income of £38m. Under strong standard assumptions, investments would be one fifth (£128m) but the returns would be twice as high (12 per cent) giving an income of £15.4m. The loss of actual income would be £38m. — £15.4m. or £22.6m. which was 0.54 per cent of GNP. As Balogh admitted, the reported figures do not account for a great deal of direct investment overseas. Assuming that total foreign investment in 1937 was about £5.1bn. [85] rather than the 3.24bn. reported by Balogh, and that the share of the dependent empire was commensurately higher, total British investment there would have been £1020m. Assuming a 12 per cent return, the investment gain from the dependent empire on this basis would have been 0.72 per cent of GNP and the overall benefits of both trade and investment with the empire would sum to approximately 4 per cent of GNP. It should be noted that, given the poor quality of the data on overseas investment, these figures are even more problematic than those for pre-1914 discussed in the text. The statistics of British foreign investment in the 1930s are in urgent need of the attention already applied to the pre-war period.

[82] National Income figures are from Mitchell (1988).
[83] Balogh (1947), p. 254.
[84] Barnes (1939), p.74.
[85] Figures from Feinstein (1972b).

iii) DEFENCE COSTS

In 1937 defence expenditure was: army and ordnance, £54.8m; navy, £81.1m; air force, £50.1m, giving a total of £186m or 3.8 per cent of GNP [86].

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ITALY'S LATE AND UNPROFITABLE FORAYS INTO EMPIRE

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1. INTRODUCTION: SOME HISTORY

Italy's colonial history is better known for its failures (notably the battle of Adwa, the major defeat of a Western power by an African army in the 19th century) than for its achievements. Italy succeeded in conquering a substantial «empire» only in the 20th century, when the traditional colonial powers were already in retreat [1]. But this has not always been the case. The Venetian republic successfully ruled for many centuries the first «colonial» empire in Western Europe [2].

Venice's «colonial» expansion dates back to the 11th century, when the «Serenissima» began to subdue other commercial (and pirating) centres along the Dalmatian coast as part of its successful effort to control the Adriatic Sea. Most of its empire was however acquired at the beginning of the 13th century, when the Fourth crusade was diverted from its mission in order to conquer Costantinople. As payment for the transportation of the army, Venice obtained part of the Eubean peninsula and other harbours on the Greek coast, Crete, and other islands in the Aegean Sea. Later it added Corfù (1386) and in 1489 Cyprus. In fact in the second half of the 15th century the tide had changed under the new aggressive policy of the Turks which materialised after the fall of the Byzantine Empire. As early as 1470 Venice lost all its possessions in mainland Greece, and from then on it had to wage a costly defensive war for more than two centuries. The Venetian Empire was the first bulwark of Christian Europe against Turkish expansion on the sea, as the Austrian Empire was on land.

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[1] Del Boca (1985, 1986, 1988).

[2] Lane (1973), Cozzi-Knapton (1986), Cozzi-Knapton-Scarabello (1992). Here I define «colony» as a territory managed —more or less loosely— from the mother country. This definition does not fit the case of Genoa, whose holdings in the Eastern Mediterranean and around the Black Sea in the Middle Ages were independent settlements of merchants.

In the long run, the «Serenissima» lost almost all its colonies, despite episodes of heroic defence such as the sieges of Famagosta (Cyprus) in 1570-71 and Candia (Crete) in a twelve years'war (1645-69), and occasional backlashes (such as the conquest of Peloponnesus in 1699-1714). Only the military decline of the Ottoman Empire allowed Venice to maintain the Greek isles of Corfù, Cefalonia and Zante until the demise of the republic in 1797 as relics of a bygone age.

After the fall of Venice, no-one in the Italian peninsula bothered about colonial expansion. The few Italians who cared for grand political strategies concentrated their efforts on the unification of the country, which was achieved in 1861. The new state faced so many problems that it could not pay much attention to the scramble for colonies, which other great powers were pursuing. As early as 1870 Italy purchased, using the navigation company «Rubattino» as a proxy, an area around Asäb, on the bank of the Red Sea. But this possession was left unoccupied until 1880 [3]. Two years later, the thin veil of «private» property was removed and the area became Italy's first colony. In 1885 the colony (Eritrea) was extended, by occupying the much more important harbour of Meswa (Massaua). In the following decade Italy, especially under the Crispi governments (1887-1889 and 1893-1896), pursued an aggressive expansionary policy in East Africa. It established a foothold on the Southern Somali coast by bribing local chiefs and renting some ports from the Sultan of Zanzibar with British approval. The area became an Italian protectorate in 1891. The state opted however for indirect rule, by private companies - the «Società Filonardi» from 1893 to 1896 and the «Società del Benadir» from 1900 to 1905. Italian policy in the North was much less successful, as it had to deal with an (albeit loosely) organised state, Ethiopia. Italy first tried to impose a protectorate on the new Negus, Menelik, and when he refused, waged an outright war of conquest. The campaign ended with the disaster of Adwa, which caused the fall of Crispi and discredited his imperialistic policy. Italy retained Eritrea (in spite of some plans to sell it to Belgium) and Somalia, which returned definitively to state rule in 1905, as the «Società del Benadir» was unable to manage it properly. Yet the governments did not forget colonial expansion. As early as 1900-2 Italy had its «right» to Tripolitania and Cirenaica, still officially under Ottoman empire, recognised by other major powers thanks to a skilful diplomacy [4]. That «right» was exercised in 1911 by the Giolitti government.

[3] Doria (1990), pp. 129-140 and 209 ff.

[4] Italy also participated to the war against Boxers in 1901, gaining a minuscule concession in the town of Tien-tsin.

Italy's sovereignty on these lands (later christened Libya) was recognised by the treaty of Ouchy (1912), while the treaty of Sevres (1920) added isles in the Aegean sea which Italy had occupied during the war against Turkey. However, Italy's grip on Libya was restricted to the coastal areas by the endemic revolt of the indigenous populations. This was not quelled until the late 1920s, after a long and bloody war, waged with aerial bombing and mass deportations. In the same years, Italy extended its colony in Somalia northwards, on territories ceded by the United Kingdom. But the big prize remained Ethiopia, which was then one of the two independent states in Africa. In October 1935, after forty years of peaceful relations, Mussolini's government invaded Ethiopia. In a few months the Italian army won (in spite of sanctions by the League of Nations), thanks to its technical superiority and to the massive use of gas. The war ended officially in May 1936, with the proclamation of Italy's king as Emperor of Ethiopia, but the guerrilla warfare went on until 1941. But eventually, Italy had a real colonial empire. Though much smaller than the British or French empires, it nevertheless was not negligible. In 1939, it extended over 3.5 millions of square kilometres (i.e. more than ten times the metropolitan territory), and contained about 13-15 millions inhabitants [5]. It did not last for long. All the colonies were lost in the first years of World War Two. Italy however was given by the United Nations a temporary mandate on Libya and Somalia.

2. THE MOTIVES FOR IMPERIALISM

The Venetian Stato da mar (maritime empire) differed radically from the 19th century empires. It consisted in «a string of tiny settlements» [6], scattered all over the Mediterranean and the Levant. At its peak, in the 1550s, it included perhaps 650,000 inhabitants, against 1.6 millions in the Veneto [7]. Venice in the Middle Ages was first and foremost a trading nation, and she needed colonies to support her commerce and navigation. They were primarily bases for supplying galleys, which constituted the

[5] According to 1936 census there were about 750000 inhabitants in Libya and 140000 in the Aegean islands, plus an estimated 12.1 millions in East Africa (Annuario 1939). This last figure may have been underestimated. The 1931 census had counted about one million people in Somalia, while according to Maddison (1995, tab., p. 116) the population of Ethiopia increased from 9 millions in 1913 to 18.5 in 1950.

[6] Braudel (1973), p. 846.

[7] Cozzi-Knapton (19??), p. 206.

backbone of Venetian fleet and could not stay at sea for long periods. Besides, the colonies on mainland were useful for trade with the surrounding natives, and as entrepots at the end of longer trade routes (as in the Black Sea). Last but not least, the colonies and the interior provided oarsmen and sailors (very precious human capital in times of war). Colonies were thus really important for the prosperity of the Venetian republic in the Middle Ages, but it is impossible to assess whether or not they were absolutely indispensable.

In the 16th and 17th centuries the role of the «Stato da mar» changed. Commercial galleys were abandoned, and navigation and trade lost some of their erstwhile importance for the Venetian economy. They provided a living to the members of the ruling aristocracy - first as feudal lords and later as state employees. And above all, they became more and more important as suppliers of agricultural goods - cereals, wine, salt [8], oil [9], etc. All these goods were officially reserved to Venetian commerce to be sold only in Venice. In spite of the extensive smuggling, the Venetian merchants were able to reap some nice rents, even if it is impossible to estimate how large. It is impossible as well to estimate the costs of empire. Officially the colonies were a net liability at least in the 16th and 17th centuries, as the costs of wars to defend them outstripped the direct revenue [10]. These latter however do not include the indirect proceeds such as the duties collected in Venice on the importation of colonial wares. It is likely that in its second period the Stato da mar was a net liability for Venice. However, in the very long run the contribution of the Empire might have positive.

The same cannot be said of the 19th century imperialism. Italy was then still a backward country. Why did it want an empire? Economic motives in the strict sense do not seem to have played a major role. Investment of Italian capital in each colony before conquest was small if not negligible. The «Rubattino» company was interested only in gaining approval from the government in order to obtain subsidies for its main shipping business, and the Italian interest in Eritrea was limited to a handful of petty traders. In the late 1880s-1890s some Northern industrialists gave token support to colonial initiatives, but they dreamt of peaceful commercial expansion, not of military conquest [11]. Surely «there never were private

[8] Hocquet (1990).
[9] Mattozzi (1980).
[10] Pezzolo (1990).
[11] Podestà (1996).

interests sufficiently strong to promote Italy's first colonial expansion»? [12]. This statement holds true for Libya in the 1910s and for Ethiopia in the 1930s as well. In both cases, the commercial enterprises were undertaken more as a means of gaining political influence than for their economic worth. The Italian Foreign Office strongly encouraged and to some extent directed the investments of «Banco di Roma» (the fourth largest Italian bank) in Libya in the late 1900s [13]. And in the 1920s the government partitioned Ethiopia with France and the United Kingdom into spheres of economic influence well before Italian businessmen showed any sign of concrete interests in the area.

Italian colonialism seems to have been driven mainly by domestic politics. Crispi in the 1890s needed to divert attention from the social unrest and from a banking and financial crisis. Giolitti used the conquest of Libya to secure support from the right for his coalition. Mussolini wanted to consolidate the growing consensus around his regime, by avenging Adwa and by boosting his personal image as a leader. However, these ploys would not have worked if the colonial issue had not struck chords with at least part of public opinion [14]. The ground had been prepared since the late 1870s by the propaganda of a small but growing and vociferous bunch of nationalists [15]. They insisted that a colonial empire was indispensable for any great power. This ideology was shared also by Crispi and Mussolini (who coined the famous slogan of a «place in the sun»), if not by the highly pragmatic Giolitti.

It would be pointless to discuss all facets of this nationalistic rhetoric — the «civilising mission» of the Italian «race», the recall of the glorious Roman past etc. It will suffice to remind its economic components. As usual in the 19th century, colonies were considered both as markets for industrial products and sources of raw materials, in conspicuously short supply in Italy [16]. But Italian colonial ideology added a further argument: the colonies were supposed to relieve overpopulation in Italy's countryside [17]. Estimates of the number of potential settlers look absolutely

[12] Labanca (1993), p. 100.

[13] De Rosa (1981), pp. 241-296.

[14] One has to remind that until 1912 the voting rights were restricted to a (growing) minority of males —so that colonialism might have been politically expedient even if unpopular among the public at large.

[15] Miege (1968) and Are (1985).

[16] In the 1930s, it was also argued that the colonies could earn foreign currency by running a trade surplus with other countries.

[17] Podestà (1996).

fantastic. Those for Ethiopia ranged from a «modest» 1.5 million people to 5-6 or even 12 millions [18]. Clearly, most of these «economic» arguments had more to do with politics than with the welfare of the Italians. The «independence» from imported raw materials was meaningless in an integrated world market, except in wartime. Even in this case the strategy was deeply flawed as the sea-borne transport of raw material was conditional on the goodwill of the Royal Navy. The emigration to colonies instead of to, say, the United States could have allowed Italians to retain cultural or political ties to the metropolis, but would not have increased the welfare of emigrants. Indeed, it may well have reduced it, to the extent that they would have probably earned more as industrial workers in Philadelphia than as farmers in Ethiopia. A reduction of emigrants' income would have hit Italy's economy, as their remittances were an important component of the GNP.

My paper will show that, in spite of all the propaganda, the empire was a net loss for Italy. A country can gain from its colonies (i.e. attain a higher level of welfare) either if it extracts a net contributors to the state coffers or if it succeeds in «exploiting» its colonies by using its political power. It has to turn the terms of colonial trade in its favour (forcing the colonies to pay more for imports and to receive less for exports than the world market price) and/or to derive returns on investments of its own capital higher than the normal competitive rates. In the case of Venice the gains from trade exploitation may have exceeded the costs for the state budget. Alas, the Italian colonies never became financially self-sufficient. While until the late 1930s trade and direct investments were negligible, and hence rents from exploitation could not have been substantial. My last, speculative, section discusses to what extent these outcomes were unavoidable.

3. THE MACROECONOMIC IMPACT OF THE EMPIRE

Italy never extracted a net income from its colonies. The so-called local revenues (which anyway included import duties and the proceeds from the taxation of the Italian business) were very small. On average, from 1921-2 to 1929-30 they accounted for a mere 30% of total colonial expenditures [19]. The balance came from Italy. The exact amount of these

[18] Del Boca (1986), pp. 154-5 and 194.

[19] Larebo (1993) tab. 2.

TABLE 1

Total expenditures for colonies

	Current prices (millions lire)			*Constant prices (millions of 1913 lire)*		
	RGS	*Repaci*	*Tesoro*	*RGS*	*Repaci*	*Tesoro*
1882			0			0
1883			0			0
1884 (1 sem.)						
1884-85			9			11
1885-86			5			6
1886-87	2		9	2		11
1887-88	33		43	41		54
1888-89	17		19	20		22
1889-90	26		25	30		29
1890-91	21		22	24		25
1891-92	17		15	20		18
1892-93	13		9	17		11
1893-94	10		10	13		13
1894-95	9		14	12		18
1895-96	83		123	107		158
1896-97	55		49	71		63
1897-98	32		16	41		21
1898-99	21		10	26		12
1899-00	9		9	11		11
1900-01	9		9	11		10
1901-02	19		9	23		10
1902-03	20		8	25		10
1903-04	13		8	16		10
1904-05	10		8	13		10
1905-06	21		8	26		14
1906-07	9		8	10		9
1907-08	9		8	10		9
1908-09	11		9	13		10
1909-10	14		11	16		12
1910-11	11		11	12		12
1911-12	68	334	12	69	337	13
1912-13	306	498	13	302	491	13
1913-14	196	14	14	200	14	14
1914-15	368	170	170	330	152	152
1915-16	390	237	241	250	152	154
1916-17	883	149	154	385	65	67
1917-18	215	147	151	63	43	44
1918-19	286	168	175	66	39	41

	Current prices (millions lire)			Constant prices (millions of 1913 lire)		
	RGS	Repaci	Tesoro	RGS	Repaci	Tesoro
1919-20	260	225	239	50	43	46
1920-21	263	232	244	46	41	43
1921-22	397	282	300	73	52	55
1922-23	336	255	266	61	47	49
1923-24	460	414	432	84	76	79
1924-25	295	420	441	51	72	76
1925-26	498	406	433	80	65	70
1926-27	745	620	590	129	107	102
1927-28	662	638	648	128	123	125
1928-29	560	494	509	113	100	103
1929-30	573	526	531	125	115	116
1930-31	495	490		122	121	
1931-32	484	441		132	120	
1932-33	481	464		142	137	
1933-34	461	456		145	143	
1934-35	1175	1422		355	430	
1935-36	11006	12387		2997	3373	
1936-37	13613	18537		3239	4410	
1937-38	12357	12040		2638	2571	
1938-39	9704	10229		1962	2068	
1939-40	9448	1975		1727	361	

SOURCES: RGS: Ragioneria, 1969; Repaci: Repaci, 1962; Tesoro: Ministero del Tesoro, 1914 and 1931.

transfers is however not so easy to ascertain (see Appendix A). Three major estimates on total expenditures are reported in table 1, in current and constant (1913) prices. The figures differ, especially in wartime, but they all show a great difference between «peace» and «war» (inclusive of the whole period of Fascist rule of Ethiopia).

In «peaceful» years the Italian colonies were not expensive to run. They were comparatively small and the costs of administration and investments were kept to a minimum. As late as 1931 the total staff at the Ministry for Colonies at home and in the colonies- consisted of 7,025 civilians (2,766 Italian and 4,259 natives) and 14,143 soldiers and officers [20]. Table 3 reports some details on the composition of expenditure

[20] Annuario (1932).

in 1928-29, a year fairly representative of the early Fascist period. Two thirds of the total was spent for military purposes —i.e. the repression of the insurgency, which the source calls deceitfully «military police operations... to reorganise the defence of the territory» [21]. Italian parsimony denied the natives the only possible benefits from colonisation, an extensive modern civil service and large investments in infrastructures. Italy obtained the status of colonial power on the cheap. Even according to the highest estimate, before 1935 outlays did not exceed a 3% of total expenditures, much less than the expenses for growth-enhancing items, such education (8.5% on average from 1882 to 1939-40) or public works (15%) [22]. *A fortiori,* the incidence on GDP was small (table 2). On average each Italian paid about 1.3 (1913) lire —i.e. roughly half the average daily wage of industrial workers on the eve of World War One [23]. The impact on the Italian economy was corresponding small if not negligible.

On the other hand, the colonial wars were expensive, and increasingly so (table 2). The first Ethiopian war absorbed «only» 3-5% of state expenditures, the Libyan 10% to 15% (according to the estimates), while the conquest of Ethiopia swallowed up to half of total expenditure. The end of the war did not cause expenditures to fall back to the pre-war levels. Mussolini's new empire needed a larger administration, so that in 1938 the staff of the Ministry of Colonies had tripled to 25,292 plus 57,092 permanent military personnel [24]. On top of this, the guerrilla war engaged an unknown but substantial number of so-called «metropolitan» soldiers on «temporary» assignment [25]. Furthermore, the Fascist government invested large sums in Ethiopia. In four years it built some 4000 km. of good roads (particularly useful for military purposes) and several modern public buildings [26]. The Fascist Empire was, therefore, quite expensive. Before 1940, the expenditures never dropped below 15% the total expenditures. The annual cost per-capita soared to almost 60 (1913) lire —i.e. the equivalent of 20 days of pay for an average industrial worker.

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[21] Ministero del Tesoro (1931), p. 477. In that particular year the military expenditures slightly exceeded the transfers from Italy. In other words, the Eritreans and Somalis contributed towards the repression of Libyans. Local revenue paid for all other services —including the keeping of Italian staff.

[22] Brosio-Marchese (1986).

[23] The figure of the text is an average of the (fiscal) years 1886-7 to 1894-95, 1897-98 to 1911-12 and 1917-18 to 1933-34. The average for the whole period 1886-87 to 1933-34 was 2.10 lire. The wage data are from Zamagni 1976 and 1984.

[24] Annuario (1939).

[25] Del Boca (1986), p. 316.

[26] Miege (1968), pp. 254-55.

TABLE 2

Expenditures for colonies: percentages

	On state expenditure			*On GDP*		
	RGS	*Repaci*	*Tesoro*	*RGS*	*Repaci*	*Tesoro*
1882			0.01			0.00
1883			0.02			0.00
1884 (1 sem.)			0.03			0.00
1884-85			0.57			0.09
1885-86			0.33			0.05
1886-87	0.12		0.56	0.02		0.10
1887-88	1.72		2.26	0.29		0.46
1888-89	0.88		0.92	0.15		0.19
1889-90	1.35		1.38	0.21		0.24
1890-91	1.14		1.22	0.16		0.19
1891-92	0.92		0.89	0.13		0.14
1892-93	0.75		0.53	0.11		0.09
1893-94	0.58		0.54	0.08		0.11
1894-95	0.52		0.80	0.07		0.15
1895-96	4.65		7.00	0.68		1.30
1896-97	3.18		2.92	0.46		0.53
1897-98	1.91		0.97	0.26		0.17
1898-99	1.21		0.59	0.16		0.09
1899-00	0.52		0.52	0.07		0.08
1900-01	0.51		0.51	0.06		0.07
1901-02	1.08		0.47	0.13		0.07
1902-03	1.12		0.46	0.14		0.07
1903-04	0.71		0.44	0.09		0.07
1904-05	0.54		0.43	0.07		0.07
1905-06	0.93		0.47	0.13		0.09
1906-07	0.41		0.38	0.05		0.05
1907-08	0.43		0.36	0.05		0.05
1908-09	0.45		0.35	0.06		0.05
1909-10	0.56		0.44	0.07		0.06
1910-11	0.41		0.41	0.05		0.06
1911-12	2.34	13.41	0.43	0.31	1.52	0.06
1912-13	9.75	17.52	0.41	1.33	2.16	0.06
1913-14	6.36	0.50	0.51	0.83	0.06	0.06
1914-15	6.59	3.05	3.11	1.40	0.65	0.58
1915-16	3.59	2.21	2.26	1.11	0.68	0.44
1916-17	5.37	0.87	0.87	1.82	0.31	0.14
1917-18	0.94	0.58	0.50	0.33	0.22	0.07
1918-19	1.04	0.53	0.54	0.36	0.21	0.05
1919-20	1.24	0.98	1.03	0.27	0.23	0.05

	On state expenditure			*On GDP*		
	RGS	*Repaci*	*Tesoro*	*RGS*	*Repaci*	*Tesoro*
1920-21	1.27	0.65	0.67	0.23	0.20	0.04
1921-22	1.56	0.82	0.84	0.33	0.23	0.05
1922-23	0.81	1.18	1.20	0.26	0.20	0.04
1923-24	1.50	2.01	2.02	0.34	0.30	0.06
1924-25	1.43	2.02	2.18	0.19	0.27	0.05
1925-26	2.51	1.89	2.08	0.28	0.23	0.04
1926-27	3.41	2.40	2.81	0.43	0.36	0.06
1927-28	2.83	2.47	3.31	0.40	0.39	0.08
1928-29	2.26	2.17	2.59	0.34	0.30	0.06
1929-30	2.71	2.30	2.70	0.36	0.33	0.07
1930-31	2.32	2.04		0.34	0.34	
1931-32	2.13	1.67		0.36	0.33	
1932-33	2.13	1.88		0.37	0.36	
1933-34	1.89	1.67		0.36	0.36	
1934-35	5.21	5.22		0.86	1.04	
1935-36	31.23	48.61		7.30	8.22	
1936-37	34.74	53.41		7.97	10.85	
1937-38	31.22	27.87		6.45	6.28	
1938-39	23.75	25.03		4.62	4.87	
1939-40	17.36	4.71		3.94	0.82	

SOURCE: Colonial expenditures tab. 1 GDP Rossi, Sorgato Toniolo (interpolated backwards in 1886-1890 with Ercolani 1969 and average of two consecutive years).

TABLE 3

Revenues and expenditures of Italian Colonies in 1928-29 (millions of current lire)

	Libya	*East Africa*	*Total*	*%*
Military expenditures	453.9	45.9	499.8	67.6
Staff	41.4	31.7	73.1	9.9
Public works	14.8	8.8	23.6	3.2
Economic improvement	27.7	6.5	34.2	4.6
Other	56.9	42.2	99.1	13.4
Railway building	10.0	0.0	10.0	1.4
Total	604.0	135.0	739.8	

SOURCE: Ministero del Tesoro, 1931, pp. 476-77.

The cost of colonial wars was met by increasing the budget deficit, as the state revenue/GDP ratio remained roughly constant in all periods. Throughout the whole period, the deficit was mainly financed with issues of bonds [27]. Therefore, the expenditures might have crowded out investments or boosted the economy, depending on the economic cycle. Neither effect could have been really substantial for the first two campaigns, as the sums were still small —a 1-1.5% of GDP (at the peak) for the first Ethiopian war and a 2% for the conquest of Libya—. The conquest of Ethiopia was of a different order of magnitude. The budget deficit soared from a modest 2.5% of GDP in the early 1930s to 7% from 1935-36 to 1938-9. All the increment was due entirely to colonial expenditures. Without them, the deficit would have decreased from 2.2% to a mere 0.4% of GDP. One could argue that the conquest of Ethiopia was instrumental in supporting the aggregate demand, and hence in helping Italy out of the Great Depression [28]. It was anyway the worst possible type of support, apart from its moral implications. A substantial part of the colonial expenditures was spent abroad, and therefore did not increase the welfare of the Italian population.

4. THE MICROECONOMIC EFFECTS OF TRADE AND COLONISATION

Did Italy get anything in exchange for its money? Was it able to «exploit» its colonies? An exhaustive reply would rely on a detailed analysis of colonial trade (prices, quality of the goods etc.) and of investments in the colonies. It may be difficult to gather the necessary evidence, but such research is largely unnecessary. The colonial trade has been very small until the 1930s (tab. 4). Before 1895, it was so small that the statistical office did not bother to register the colonies as a separate entry in the trade statistics. In the early 1900s the trade grew somewhat, but it still remained negligible before the conquest of Libya, which triggered a short-lived boom in exports to the colonies. Imports from colonies increased as well, but they remained far smaller than exports. Both imports and exports increased remarkably throughout the 1920s, albeit not steadily. On the eve of Great Crisis, the trade with the colonies was six or seven

[27] Spinelli-Fratianni (1991), Ministero del Tesoro (1988), Salvemini-Zamagni (1993), tab. 2.2, and Maione (1979).

[28] Toniolo (1980), pp. 336-37.

TABLE 4

Trade with colonies

	Value (millions 1913 lire)		*Percentages on total*	
	Exports	*Imports*	*Exports*	*Imports*
1895	2.38	0.29	0.18	0.02
1896	1.04	0.89	0.08	0.06
1897	0.99	0.28	0.07	0.02
1898	1.29	0.25	0.08	0.01
1899	1.42	0.22	0.08	0.01
1900	2.17	0.42	0.14	0.02
1901	2.15	1.20	0.13	0.06
1902	2.53	1.29	0.14	0.06
1903	2.17	0.82	0.11	0.04
1904	2.80	4.98	0.14	0.20
1905	5.01	3.46	0.24	0.14
1906	8.04	5.19	0.35	0.17
1907	7.54	4.25	0.35	0.13
1908	5.77	4.14	0.29	0.12
1909	8.99	4.37	0.42	0.12
1910	9.63	2.13	0.41	0.06
1911	38.00	4.09	1.64	0.11
1912	111.86	11.31	4.80	0.31
1913	93.85	11.36	3.74	0.31
1914	80.41	10.76	3.49	0.35
1915	73.80	21.18	3.71	0.57
1916	49.46	15.80	2.96	0.35
1917	35.56	13.03	2.95	0.26
1918	18.22	16.58	2.25	0.43
1919	30.76	42.31	2.28	1.15
1920	32.58	22.72	1.63	0.50
1921	22.68	6.25	1.48	0.21
1922	23.71	7.63	1.39	0.26
1923	32.32	7.76	1.60	0.25
1924	46.86	14.69	1.78	0.41
1925	46.94	23.11	1.57	0.54
1926	47.95	23.20	1.61	0.56
1927	62.25	18.80	2.09	0.48
1928	64.23	23.34	2.24	0.56
1929	77.68	22.16	2.53	0.50
1930	64.87	18.75	2.32	0.47
1931	65.65	20.38	2.43	0.66
1932	69.65	17.85	3.61	0.76
1933	74.18	24.56	3.99	1.06

	Value (millions 1913 lire)		Percentages on total	
	Exports	Imports	Exports	Imports
1934	82.26	29.60	4.96	1.21
1935	216.44	36.86	14.31	1.64
1936	442.63	40.33	30.96	2.59
1937	570.15	77.32	24.73	2.51
1938	505.74	43.16	23.32	1.85
1939	465.54	54.65	21.72	2.68

SOURCE: Ministero delle finanze, ad annum.

times greater than it had been in the late 1900s, but it still accounted for only 2.5% of Italian exports and 0.5% of imports. The Great Crisis, and the conquest of Ethiopia, drastically changed the situation. From 1929 to 1937, while overall trade was falling because of autarkic policy at home and of the spread of protectionism abroad, imports from the colonies increased 3.5 times and exports 7.3. An increase in colonial trade was hardly an Italian peculiarity, as many countries resorted to imperial preferences and captive markets to dispose of their exports. Italy, however, stands out for the extent of the change and the size of the surplus on its balance of colonial trade. In fact, even at their all-time peak, in 1937, imports from colonies still did not exceed 3% of total imports. On the other hand, the empire became the most important destination of Italian exports. On average, from 1936 to 1939 it accounted for a quarter of the total (Germany ranked second with about 15%). The colonies' needs however exceeded Italy's resources, and therefore they had to resort to imports from other countries. In 1937, Guarneri, the Minister for Foreign Exchange, in a very worried memo to Mussolini, stated that the outflow was the main cause of the difficulties of the Italian balance of payments [29].

The small scale of the colonial commerce (apart from the late 1930s) contrasted with the rosy propaganda of the nationalists, but it is hardly surprising. The Italian colonies could not be a major outlet for Italian products because like the rest of Africa they were extremely poor and economically backward. Exports from Italy either consisted of procurements for the government or were consumed by the Italian population, mostly on the official payroll. In other words, the exports to

[29] (1994), pp. 759-61.

TABLE 5a

Exports to colonies as percentage of total exports, selected products

	1929	*1936*	*1938*
Macaroni	14.6	85.4	84.0
Cotton fabric	3.3	35.5	22.6
Cotton yarn	2.3	22.6	26.3
Manufactures of artificial fibres	n.a.	14.1	26.8
Machinery and tools	7.6	58.1	50.7
Agricultural machinery and tools	8.6	90.0	79.4
Scientific instruments	n.a.	69.1	48.2
Cameras	19.9	94.5	25.5
Telegraphic and phone equipment	10.3	61.3	81.2
Radio equipment	31.4	84.5	59.1
Computing machines	13.4	84.8	75.4
Cars and lorries	13.4	84.8	75.4
Motorcycles and bicycles	9.1	84.2	36.7
Phosphatic fertilisers	4.4	83.9	90.4
Nitrogenous fertilisers	1.8	67.0	93.7
Potassic fertilisers	100	77.9	52.0
Glass sheets	n.a.	77.8	69.5
Furniture and wooden manufactures	n.a.	63.8	57.8
Paper	n.a.	48.0	37.3
Cardboard	n.a.	83.0	44.0
Paper manufactures	n.a.	71.2	65.1
Shoes	21.3	83.7	69.1
Bulbs	3.8	78.6	55.5
Electric wires	n.a.	85.0	16.8

colonies were ultimately paid for by state transfers. This feature became clear in the late 1930s. Guarneri remarked that «all the economy of the Empire thrived in an artificial climate which was only nourished by the transfer of goods and money that the mother-country gave with the largess of a great lady» [30]. Italy supplied her colonies with almost everything, including foodstuffs (in 1938 the single largest export was flour). Colonies were indeed the main or the sole export market for «advanced» industry, such as chemicals or engineering (table 5a), but these goods accounted only for a third of total exports (table 6). On the other hand, the colonial market was relatively unimportant for almost all industries. As shown by

[30] (1994), p. 749.

TABLE 5b

Imports from colonies as percentage of total imports, selected products

	1929	*1936*	*1938*
Hemp and linen	1.2	0.0	8.3
Wheat	0.2	5.2	4.9
Tropical fruit	100.0	100.0	100.0
Cotton	0.4	1.5	1.6
Raw hides	7.8	26.8	25.5

SOURCE: Paradisi, 1978, tab. 7a.

TABLE 6

Composition of exports to colonies, 1938

Food	28.62
Textiles and clothing	22.26
Building material, glass, earthenware	5.79
Wood and miscellaneous consumer goods *	6.05
Metallurgy and engineering	27.39
Chemicals, oil products and artificial fibers	5.13
Rubber and rubber shoes	4.77

* Includes jewelry, paperware, haberdashery, electrical material.

SOURCE: Ministero delle finanze, 1938.

the (not totally accurate) data of table 7, exports to colonies exceeded 10% of total sales only for the production of rubber goods, beer and perhaps machinery.

Imports from colonies were low simply because the Italian colonies were poorly endowed with natural resources. There were practically no valuable deposits of minerals apart some gold in Ethiopia and the Libyan oilfields, which, unfortunately, were discovered only after the war. Nor was land abundant. Libya and Somalia consisted mostly of desert. Ethiopia did have a lot of good land, suitable for the production of coffee and cotton, for forestry and for cattle-raising, but it was not free as the Italian authorities assumed. The native population justly resented all attempts by Italians to expropriate land and/or to force peasants to specialise in the production of cash crops.

TABLE 7

Exports to colonies as percentage of total sales, selected products c. 1938

Rubber shoes	33.0
Beer	22.2
Machinery	12.7
Mineral water	11.4
Rubber manufactures	10.8
Cement and lime	9.9
Profumes	8.9
Earthenware	7.2
Spirits	6.6
Fabrics	6.3
Furniture and wooden manufactures	6.1
Jewelry	5.3
Tobacco	4.6
Steel goods	4.4
Textile manufactures (other than fabrics)	4.3
Brushes	4.0
Bricks	3.6
Prepared fruit and legumes	3.4
Wood	3.3
Paints and colours	3.3
Vehicles	3.3
Bulbs	3.0
Glasswares	2.9
Scientific instruments	2.9
Drugs	2.5
Leather shoes	2.4
Petroleum products	2.3
Paper manufactures	2.2
Cotton yarn	2.1
Soaps	2.0
Paper and cardboard	1.9
Hats	1.9
Electrical wires	1.8
Flour	1.8
Artificial fibers	1.7
Films	1.7
Asphalt	0.9
Communication equipment	0.3
Fertilizers	0.3

SOURCES: Exports Ministero delle finanze, 1938; Sales Censimento, 1937-39.

The Italians realised slowly that prospects were so unappealing. Since the 1890s, the myth of the colonial riches attracted many adventurers and also few respectable businessmen. They put forward many fantastic plans for the exploitation («valorizzazione») of the colonies, most of which relied on state subsidies [31]. Few of these plans were ever realised. Possibly the only success-story was the establishment of plantations in Somalia in the 1920s, which grew sugarcane, cotton and especially bananas [32]. From 1932 to 1940 the output of bananas soared from 1600 to 40000 tons and they constituted the second largest item of colonial exports, after raw hides (table 5b). However, the Italian population paid dearly for this success. Somali cost twice as much as Central American bananas [33], and since 1935 the Italians were forced to buy them by the monopoly of the «Regia Azienda monopoli banane» [34]. The outcome of other development initiatives was even worse, or perhaps one should say no better for Italians' welfare. The most striking case was the production of cotton. It was the largest item in Italian imports, and therefore the development of domestic production was a top priority in autarkic policy. The target was to produce up to one million quintals (about two thirds of the consumption). The government set up a marketing board, the «Ente per il cotone dell'Africa Italiana» [35]. Its task was to oversee the production of cotton by local peasants (giving technical assistance, distributing improved seeds etc.), purchasing output from peasants (at prices lower than the market prices) and distributing cotton to Italian spinning firms. Unlike the Dutch Java system, the Italian never worked. Ethiopian cotton accounted for a mere 2% of Italian imports, and it was anyway more expensive and qualitatively worse than American cotton.

It is highly unlikely that the investments in colonial enterprises yielded large rents before the 1930s. Italy had very little capital to export (actually it was a net importer of capital throughout the whole period), and big investors anyway seemed to prefer the Balkans to the colonies [36]. Data on investments in the colonies are scarce, but all the evidence suggests that, in spite of the ambitious plans, the sums invested were puny. For instance the «Società del Benadir», whose board sported big names from

[31] Labanca (1993), pp. 162 ff.; Larebo (1994), p. 11; Podestà (1996), pp. 205 ff., and Grassi (1976).

[32] Hess (1966), pp. 121 ff. and 163 ff. Del Boca (1986), pp. 80-83.

[33] Hess (1966), p. 167.

[34] Del Boca (1986), p. 215.

[35] Miege, p. 255; Del Boca (1986), p. 187, and Larebo (1994), pp. 259 ff.

[36] Webster (1975).

industry and the aristocracy, had a capital of one million lire, of which only a third was paid-up [37]. It survived thanks to an annual subsidy from the Italian government. The plantations in Somalia in the 1920s entailed an investment of about 100 millions lire, equivalent to 26-27 millions at 1913 prices [38]. Again Ethiopia fell into another order of magnitude. The Fascist government devised a complete plan for investments in several activities, which was to be implemented by large monopolies [39]. Even if most of the plan remained on paper, the official figures were rather impressive [40]. In 1940 the paid-up capital of the industrial and commercial firms in the whole of Italian East Africa amounted to 3.8 billions lire i.e. about as much as 7% of the total capital of joint-stock companies in Italy. Most were, however, mere commercial outposts for metropolitan companies. Only 400 (out of 4007) industrial and 650 (out of 4785) commercial companies had some local business, especially in state-financed undertakings such as road building and public works. Interestingly, the national business elite remained deeply sceptical about the economic viability of the empire [41].

Last but not least, the colonies never absorbed the mass of Italian peasants in the number that populationist propaganda had promised. The prospects never aroused much enthusiasm among would-be emigrants, and the military establishment which ruled Eritrea in the 1880s and 1890s actively discouraged free immigration [42]. And it did not support an official scheme for organised colonisation, which failed in 1893-96 [43]. From 1885 to 1896 only 2000 Italians arrived in Eritrea, against a total of 1.3-1.4 millions emigrants from Italy [44]. Very few Italians settled in the colonies in the next years, and hardly anyone cultivated the land. In the late 1920s, the Fascist government stepped up its efforts to support emigration of whole peasant families, the so-called «demographic» colonisation [45]. At first, it relied on private initiative, distributing generous subsidies to would-be settlers. The results were, however, poor. In the early 1930s the

[37] Grassi (1976) and Podestà (1996), pp. 296 ff.

[38] Hess (1966), p. 167.

[39] Del Boca (1986), p. 188.

[40] Larebo (1994), pp. 61-62.

[41] De Felice (1996), pp. 785-78.

[42] Labanca (1994), p. 153.

[43] Labanca (1994), p. 293; Larebo (1994), pp. 13 ff., and Podesta (1996), pp. 262-4.

[44] Fenoaltea (1988), tab. 2.

[45] The establishment of large farms managed by Italians with native workers was called «capitalistic» or «industrial» colonisation, according to the destination of the output —the colonial market or the exports.

TABLE 8

*Italian population and agricultural colonisation *, ca. 1939*

	Acreage (Ha.)		*Farmers*	*Total Italians*
	granted	*cultivated*		
Somalia	64,900	33,600	n.a.	15,000
Eritrea		6,000	n.a.	72,500
Libya	364,700	224,000	29,876	120,000
Ethiopia	350,000	100,000	2,500-4,000	93,500

* Inclusive of «capitalistic» and «industrial».
SOURCES: Somalia, Eritrea, Libya, Larebo, 1994; Ethiopia, Del Boca, 1986, pp. 208 and 213; total italians (november 1939), Miege, 1968, p. 250.

Italian population in the whole empire numbered about 70,000, only 5000 of which cultivated the land [46]. Therefore the regime switched to the direct organisation of the migration [47], setting up elaborate and much publicised schemes in Libya [48] and in Ethiopia [49]. Only few thousands of colons settled, and they always remained a tiny minority of the growing Italian population in the empire (table 8). As shown by the detailed analysis by Larebo (1994) the implementation of the plans in Ethiopia was ridden by inefficiency, ignorance of the local conditions, racism and poor selection of the applicants. But even if perfectly implemented, the idea was impractical. A massive settlement would have entailed a largescale expropriation of the native land, with unbearable political costs. In Ethiopia the original estimate of the cost of settlement was 50,000 lire per household-farm but the real cost ranged between 80,000 and 140,000 [50]. The colonisation of Libya was even more expensive as the living conditions of the settlers were decidedly better — an average of 170,000-180,000 lire per household [51]. Even the limited number of settlers cost about one billion lire [52]. The official target of one million of families could, therefore, have cost up to 150 to 200 billion lire (including the infrastructures), roughly as much as the whole Italian GDP. Furthermore, new farms were not

[46] Persegani (1981), p. 582; Miege (1968), p. 196, and Ipsen (1997), p. 175.
[47] Ipsen (1997).
[48] Del Boca (1988) and Persegani (1981).
[49] Del Boca (1986) and Larebo (1994).
[50] Del Boca (1986), p. 209.
[51] Persegani (1981), pp. 582-583.
[52] Ipsen (1997), p. 182.

likely to survive without large state subsidies. In other words, the policy of diverting emigration from foreign lands was a dream.

5. CONCLUSION: SOME SPECULATIONS

Before 1935 the conquest of Italian colonies was fairly expensive, but their administration was cheap, and they yielded almost nothing. On the whole, they were probably a net liability, but small enough to be negligible. The Fascist conquest of Ethiopia broke with this tradition. It was extremely expensive, accounting for three quarters of total expenditures upon colonies in the whole period from 1886-7 to 1939-40. This entailed a really serious misallocation of resources, which bore no fruit for the mother-country as a whole (even if it enriched several individuals and companies). The resort to colonial trade, and the whole autarkic policy, severely damaged Italian welfare. However, the consequences on the Italian economy were small because the Fascist colonial empire only lasted for five years. On the whole colonialism had very little impact on Italian long-run growth. Without it, very little would have changed. Can this conclusion be changed? Could colonies have been relevant for the Italian development? The question depends on the implicit counterfactual. Two possibilities come to mind [53].

First, one could muse about the effects of a victory at Adwa. Let's assume that the victorious Italian army had conquered Ethiopia in 1896-98. Liberal Italy could not have afforded to manage the colony, at least on Fascist scale. The average yearly outlay in 1935-1941 (3100 millions 1913 lire) was 10% more than the *total* state expenditures in 1912-13 (pre-war peak) and about half the average expenditure during World War One. On the other hand, it is highly doubtful that Italy would have needed an increase in aggregate demand as in the 1930s. In the late 1890s and early 1900s, its economy was booming, and possibly was experiencing supply-side constraints especially in the production of capital goods.

As an alternative, one could hypothesise that Italy had not entered World War II and hence had retained its empire. The effect would have depended on the policy in the 1950s. If Italy had followed the English example of gradual de-colonisation, the effect would have been small. On the contrary, the result could have been very negative for the «Italian

[53] One should quote a third alternative scenario - that oil was discovered in Libya in the 1920s. Surely, this would have improved Italy's trade balance, even if oil was not yet the major energy source for Italy.

miracle» of the 1950s-1960s had Italy pursued the Fascist policy of exploitation and repression of the natives' insurgence along the lines followed by France and Portugal.

One might therefore want to qualify somewhat the previous assessment. Imperialism was more irrelevant than harmful largely because at first it was a military and political failure and because the Fascist period was so short. Furthermore, the focus on its economic effects should not make us neglect wider negative consequences of colonialism. It poisoned Italian politics and society for about fifty years. At the end of the World War One, the failure to obtain the colonial compensation at Versailles, which had been ambiguously promised by the Allies in the treaty of London (the myth of the «vittoria mutilata»), facilitated Mussolini's seizure of power. Later, the Fascist colonial policy set Italy on a path diverging from the Western democracies and was a proximate cause of the alliance with Nazi Germany. Italy's Ethiopian campaign was one of the major steps towards World War Two. One can argue that colonialism was one of the major scourges of Italian history in the 20th century. But of course not for Italy alone.

APPENDIX A
A NOTE ON THE COLONIAL EXPENDITURE

Estimating the total colonial expenditure is quite difficult. Before 1912 there was no central agency in charge of the colonies and the expenditures were scattered among different ministries (most notably those of War and Foreign Affairs). It was thus easy to conceal the colonial expenditures by registering them under some other headings of the state budget [54]. Governments wished to minimise the apparent costs of colonies, in order to undermine the main argument of the opposition, which was loath to oppose colonialism as such, but argued that Italy could not yet afford it. After 1914-15, all the outlays should have been registered in the budget of the Ministry for Colonies, but it is not sure that concealing had ceased totally. Furthermore, the funds for the colonial wars were usually allocated out of the budget in ad hoc laws, and this procedure entailed a lot of

[54] Labanca (1993), pp. 145-147.

creative accounting, Italian style. Finally, the original budget data, published yearly in the Rendiconti, were compiled with different and changing criteria.

Long-term series of expenditures with homogenous criteria have been provided by the Ministero del Tesoro in 1914 and 1931 [55], by Repaci (1962) and again by the Ministero del Tesoro in the 1960s [56]. The figures differ quite markedly, both for total expenditures [57] and for each category, such as the expenditure for colonies. Unfortunately the sources are extremely parsimonious in disclosing the criteria they have used. A glance at the data provides some clues. First, one can discard Repaci, who has simply copied the data from the Ministero del Tesoro, deducting the investments in railways and those in public buildings in the Aegean islands. Before the (fiscal) year 1907-08 the difference between the three «official» series depends on the definition of expenditures. The Ministero del Tesoro (1914 and 1931) refer to the «impegni» (the commitments to spend), while the later work of the Ministero [58] refers to the actual expenditures (59). It is impossible to pinpoint the causes of the discrepancies after 1908-9.

The main problem arises in dealing with the financing of the conquest of Libya. The money was advanced by semi-autonomous financial institutions (such as the «Cassa Depositi e Prestiti») which were later reimbursed by the state. In this way, the burden was distributed in many years instead of being imputed in the year of disbursement. The Ministero Tesoro omits these expenditures altogether, while Repaci and the Ragioneria follow different criteria. The former estimates the actual time distribution of the expenditures, while the Ragioneria register the outlays from the budget. In principle, the Repaci approach seems more sound, as wartime inflation caused the real value of the expenditures to fall substantially (shifting the burden from the state coffers to the lending institutions) [59]. On the other hand, Repaci seems to have omitted a further 389.2 millions allocated in 1914 [60]. The Ragioneria does not explicitly quote this sum, but it is likely to have considered it. In fact the estimate of

[55] Ragioneria generale dello Stato 1914 and Ministero del Tesoro 1931.

[56] Ragioneria (1969).

[57] Baccini (1993).

[58] Ragioneria (1969).

[59] There are two minor sources of discrepancy, the expenditures for the China war (included in the Ragioneria series but not in those of the Ministero Tesoro) and the rounding procedure. The data of the Ministero Tesoro are rounded by omitting all the decimals, so that 8.9 millions became 8 millions instead of 9 as in the usual rounding procedure.

[60] The Italian economy as a whole was decidedly worse off, as the «Cassa depositi e prestiti» should have used its funds to finance the construction of public building.

total colonial expenditure over the years 1911-12 to 1916-17 (2211 millions in current prices) is much higher than Repaci's figures (1402 millions).

On the whole, the series of the Ragioneria seem to be the best, and they have been used in the text. They are the longest ones (from 1886-7 onwards) and they take into account the actual expenditures, even if allocations through time are not precise. They will be therefore used in the historical analysis. Anyway, the choice does not change the results: over the whole period from 1911-12 to 1939-40 the cumulated difference between the Ragioneria and Repaci is a mere 1.2%.

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